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THESIS

DISINTEGRATION IN PERU - CONSOLIDATION IN CHILE:
THE CASE FOR MILITANT CAPITALISM
IN LATIN AMERICA

by

Edward Joseph Quinn

June, 1990

Thesis Advisor:

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In Latin America

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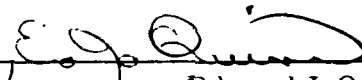
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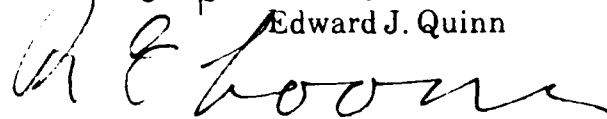
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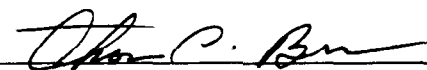
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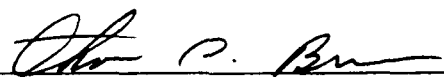
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ABSTRACT

Over the past two decades, Peru and Chile have each experienced both military regimes and civilian governments. Peru's experience has been dominated by the political left; Chile's by the right. In contrast to Peru's populist politics and interventionist economics, Chile, in 1973, experienced a militant capitalist revolution. Almost twenty years later, Peru is a nation torn by political violence of both the left and right; on the brink of economic and cultural ruin. Conversely, Chile has passed beyond military government and begun democratic consolidation. With the healthiest economy in contemporary Latin America, Chile is poised to move beyond underdevelopment to modernity.

Chile's success is the direct result of the fundamental restructuring and redirection of the nation's politics-economics paradigm undertaken by General Pinochet and the military but accepted, and today embraced, by the Chilean people. Development of a free market economic model that transcends partisan politics is the key to Chile's success and future. It is likewise a lesson Latin American states should incorporate in both national policies and international relations.



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I. INTRODUCTION

A. THE WORLD: LOOKING SOUTH

Latin American development in the post-World War II period has consistently demonstrated a commonality of political and economic components. That is, the Latin experience has been notable for the phenomena of especially politicized economics and the simultaneous instability of the political systems from which these economies spring. The cycle has repeated itself regularly throughout the postwar era and has resulted in less than optimal economic and particularly inefficient as well as ineffective political experiments in numerous states.

The United States has involved itself in Latin America since 1823 when the Monroe Doctrine established the region as within America's sphere of influence. Since that time Latin America, understood as its individual states, has been the focus of both U.S. interests and concerns. Of course, being a region comprised of sovereign states, America's involvement in Latin America, as well as its interaction with particular nations is a multi-faceted phenomenon. U.S.-Latin relations have historically been marked by the ebb and flow of American awareness of or concern about particular nations or issues. Thus, the Latins have at various times felt what they consider an overbearing American presence in the region; reflecting American decisions to achieve particular outcomes or resolution to an issue that is, first and foremost, favorable and acceptable to the U.S. Conversely, the region and many of its states have frequently experienced either benign neglect or culpable negligence on the part of the U.S.; depending in large

measure on whether the states involved have perceived their interests as being enhanced or threatened by American policies. Generally it can be noted that whenever involved in Latin America, the U.S. presence is highly visible, active, and impacts not only the particular state involved but the whole set of U.S.-Latin relationships. Equally noteworthy is the fact that when the U.S. presence &/or participation is curtailed, a similar level of impact is often achieved although originating in this case from a different level of U.S. action or, more accurately, non-action. Either way, Latin America as well as the United States cannot ignore or escape the fact of Latin America's ability to influence and affect American interests and America itself. From the issue of Mexico's debt crisis, to Central American peace, South American involvement in America's "war on drugs", or Brazil's emergence as a regional economic and potential nuclear power, events that occur throughout Latin America affect the United States, its interests and policy decisions.

B. LESS THAN THE SUM OF ITS PARTS

A regionalist would argue that U.S.-Latin relations are just that; the interaction does not carry consequences that reach beyond the Western Hemisphere. A globalist perspective leads to the conclusion that U.S.-Latin relations are part of a much larger paradigm; involving not only superpowers but the region's many states in a paradigm the effects of which radiate out from the Western Hemisphere to exert an influence on relations throughout the international arena. The reality of U.S.-Latin relations is that they are comprised of varying combinations of both at a given moment or in a given situation.

An example of this "varying degree" perspective is the phenomenon of direct U.S. involvement in Latin politics manifested as a physical American presence in a particular nation. While the United States has for example involved itself militarily in the Caribbean and Central America, U.S. troops have never been landed on the South American continent itself. Leaving aside discussion of history and the politics associated with examining and explaining this fact, it is useful to realize that such a condition points to the critical distinctions between not only states but regions that must be kept in mind whenever one attempts to address issues concerned with "Latin America". On the one hand, both American public consciousness and some policy perspectives view Latin America as a single entity, a unitary whole which can be addressed by a single U.S. policy orientation or programmatic regimen. Conversely, and more accurately, Latin America must be viewed as distinct regions, blocs and sovereign states. Each shares some common history or other broad links, but must be perceived and addressed as unique sociopolitical entities. Despite the fact that Americans often speak of U.S.-Latin relations as a single phenomenon, both history and the characteristics of Latin nations demand they be addressed as distinct phenomena. To the extent that this is achieved, American policy concerning, and actions toward Latin states has reflected this fact in varying degree and in various manifestations. Sometimes it has been the product of enlightened American awareness; at others the reflection of national exasperation. Sometimes it has been a factor supporting and strengthening ties of mutual interest with a particular state; at others it has tied up or tied down America's ability to interact with Latin states. U.S. policy has

then at times worked to aggravate differences as much as enhance links between the United States and Latin America.

C. PERU & CHILE - FOCUS & DISPERSION

Peru is an Andean and Chile a Southern Cone state. While identified with different sub-regions, these nations are in fact linked to each other-the Andes Mountains run from Chile through Peru and are a feature of geography and identity common to both. There is however a significant demographic distinction between these countries which must be acknowledged in any comparison between them. Culturally, Chile's population is overwhelmingly of European descent while Peru's is divided between indigenous Indians, mixed ancestry, and European descendants. Homogeneity is a distinct advantage Chile enjoys over Peru in so far as a common cultural heritage serves to unite the population in its national identity and a shared sense of tradition. Chile is a major actor in South America - a dominant state; one of the ABC countries. Peru on the other hand is in many respects a less dominant regional (as well as continental) power. However, since 1968 Peru has injected itself into the international political arena, continually seeking to enhance its influence and prestige and assume a leadership role in Latin America and the Third World. Chileans are in their first year of democratic civilian governance after sixteen and one-half years of military rule. Peruvians are in their tenth year of democratically elected civilian government after twelve years of military rule. Chile's economy is a growing success and preceded democratic government. Peru's economy is disintegrating despite democratic government. Peru cut itself off from the international capitalist economic system yet remained highly active in the democratic international

political system. Chile was cut off from the community of democratic states in the international political arena yet fostered and flourished as a strong new economy in the international capitalist economic system.

Herein lies both the challenge and fascination of Peru and Chile. On the one hand Peru, particularly since 1980, represents the triumph of democratic political processes-elections rather than coups determine the choice of national leaders. In this respect Peru is a modern manifestation of the democratic ideal the U.S. has traditionally sought to foster not only in Peru but throughout Latin America.

Chile represents the triumph of a capitalist economy and its underlying free market economic model. It is the case in Chile that the ideals of economic organization with which the United States identifies and has worked to foster as applicable to and appropriate for Latin America, have achieved a level of success unmatched in any Latin economy in the postwar era.

Within the confines of the specific criteria cited, one might be tempted to conclude that both Peru and Chile have achieved the status of modern democratic states. This however is not the case; for very different reasons. The rub is that neither Peru nor Chile has successfully combined political democracy with economic freedom. Rather, each has manifested the ability to achieve one but, until Chile in 1990, had been unable to integrate the other. It is not that these states, or any state in Latin America for that matter, lack the constituent elements required to enable both their economic and political systems to be simultaneously viable and effective; rather, the heritage of narrowly defined national political agendas exercising inordinate control over economics, and misdirected political

priorities, have combined to preclude attaining positive economic performance in an environment of stable political processes.

D. PERU

The triumph of democratic processes in Peru has not resulted in a balanced political system. Consistent with cultural tradition and constitutional authority, democratic mechanisms in Peru work to insure a dominant Executive branch. For the President, all spheres of activity are open to him; the system looks to him for definition as well as direction. In such a system the president must create models and programs that put his stamp upon the nation's economy and politics so as to set him and his party/bloc apart from both his predecessors as well as his competitors. All this must be done in attempts to build successful socioeconomic and sociopolitical systems in order to fulfill present obligations and prepare for a future transfer of power. The weakness of such a system and its potential for perpetuating failure becomes clear when one looks beyond the commendable aspect of democratic processes and focuses on the interpretation and consequences thereof resulting from Peru's Executive-dominated political system.

In Peru, politics-the quest for and exercise of power, is the primary goal not only of the president but of the nation's political processes. Rather than represent a united polity in the international arena or coordinate among contending domestic interests, Peruvian presidents are conceived of and so must fulfill the expectations of being the one who initiates or even creates policies. Such policies are transmitted to the nation via a vertical hierarchy, and so are often in effect before they are necessarily even known or approved by the population.

In contemporary Peru, Alan Garcia has cherished his identity as President and adroitly manipulated the political system to avail himself of every prerogative he could draw from it. From his inauguration in 1985 through the waning months of his tenure in 1990, he has coveted international notoriety and popular approval more intensely than he has committed himself or his government to the responsibilities of national leadership. Garcia more than his predecessors, dictators or democrats, grasped the importance not only of presidential authority but the primacy of politics over economics in Peru's dual-track paradigm. The president devised an economic program that must be understood as his-it originated with Garcia rather than in Peru. Consistent with the elements referred to earlier, he made both international and domestic economics subordinate rather than independent phenomena. Whether winning popular support by raising the domestic standard of living through wealth redistribution (rather than generation), or seeking international celebrity status by cutting his nation off from the world capitalist system, Alan Garcia used economics and Peru's economy for the predominantly political purpose of enhancing his own power

An examination of the Peruvian phenomenon will support the assertion that democratic institutions alone do not guarantee viable democracy. By this is meant that the act of declaring a nation democratic and going through the rituals/motions of democratic processes does not of itself guarantee for the people a life of freedom. Viability in a democracy has to do with the very nature of life in that democracy. A viable democracy is one in which possibilities take precedence over resignation; where fear is not a defining characteristic of existence. In Peru's case failure to separate economics and the economy from politics, particularly as practiced by

President Garcia, has led the nation to the brink of political as well as economic ruin. At the very least, political processes as manifested in Peru, have exacerbated and aggravated the negative influence of politics and economics on each other in a paradigm where politics dominates.

E. CHILE

The case in Chile is in many respects one of similar causes but almost polar opposite effects. The Chilean experience shares a common link with Peru in that Chileans elected a president in 1970, Salvador Allende, for whom economics and the economy were a means by which the nation's political orientation and identity would be changed. Unlike Peru however, Chile had enjoyed almost one hundred and forty years of stable democratic governance preceding Allende's election. Despite his having been democratically elected, the question of whether such a society must, as a condition of its existence, permit its elected leaders to undertake the dismantling of that democracy is a larger question that overshadows the fact that such was not to be the case in Chile.

In September 1973 the military overthrew Salvador Allende in what is usually referred to as a coup but what in actuality was the opening of a revolution in Chile. As radical as had been the phenomenon of a democratically elected Marxist president leading the nation on "Chile's road to socialism", the military government established in 1973 undertook an even more radical program of both economic and political transformation.

What is particularly noteworthy, and a mirror opposite of the Peruvian experience, is that in Chile the Pinochet-led government would intentionally undertake the complete subordination of political processes in pursuit of a free

market economic model. Consolidating itself as the sole source of political power, the Pinochet government experienced almost universal condemnation and isolation in the international political arena. Accepting and absorbing these costs, the government undertook a simultaneous reconstruction of Chile's economy aimed squarely at making Chile a viable contender and full participant in the international capitalist economic system. To this end domestic politics was removed as an influence on economic relationships or operations. Denied the option of politicizing the economy for partisan advantage, Chileans turned their energies toward achieving success (and economic independence) in the free market economy.

Despite the setbacks of an initially flawed orientation toward investment over production, OPEC-related oil price shocks, and a world recession in 1980, the Chilean free market economic model remained in place. Because the government denied itself the option of abandoning the economy in favor of the political expedient of protectionism, Chileans were left no choice except to work their (Chile's) way out of the crises rather than ignore them or defer the necessary corrective measures required to turn the economy around. The success of this national recovery is evident throughout the spectrum of economic indicators available for study in 1990. Chile's economy is succeeding, has maintained its free market orientation and is growing stronger.

From this successful although costly (politically and socially) transformation of the economic model from government imposition to national adoption was born the momentum for further translation into the political sphere. In Chile, the free market economy with its emphasis on individual gain has led inexorably to its

manifestation as the drive for personal liberty. Chile's redemocratization, begun with the election of President Patricio Aylwin, is founded on a national consensus that politics be returned to the governed but that the nation's economy is not a political instrument. It is not to be tampered with by the politicians in pursuit of partisan political ends. Chile has, it appears, achieved the critical separation of the national economy from national politics and if successful in maintaining the distinction will be South America's first such success.

F. QUESTIONS & THE COST OF ANSWERS

What does it mean for Peru to have functioning democratic processes but be a dysfunctional nation - or for Chile to be a functional economy with nascent democratic process restored? Is one in a better position to survive as not only a nation but a democracy, than the other? The answer seems to be that Chile is better positioned to consolidate its return to democracy than Peru is to resolve the crises (economic as well as political) threatening its very existence. This will be shown to be the result of the commitment to national goals and a shared belief in a better future which unite Chile while the lack of these qualities among Peruvians works to undermine that nation's fragile democratic institutions.

This study proposes to examine the conditions contributing to the very different paths democracy has taken in Peru and Chile. More important, it will examine not only the consequences of these experiences over the past two decades but the implications for future developments resulting therefrom.

Political and economic systems interact in Latin American states to a degree and at a level not readily understood or appreciated by many Americans. It is this interaction and the requirement to break the traditional links between them

which will be shown to be common to both the Peruvian and Chilean experiences. Chile's success in establishing an economic model which stands independently makes the economy more responsive to coordination and less amenable to manipulation. Is this independence really the foundation for successful political democratization? Does economic freedom lead to political freedom as well? The answers to these and other questions posed herein can go far in providing a template upon which U.S. relations with and initiatives in Latin America can be built in the coming century.

Democratic mechanisms of themselves have proven ill-suited to checking Peru's economic and political disintegration. Chile's imposed-then-adopted free market economy has demonstrated its ability to achieve not only positive growth but to manifest itself as new vitality in the political sphere as well. This thesis asserts that an independent and diversified free market economy works to achieve and support political freedom as well. Conversely, political institutions and processes alone will not necessarily help to achieve a working economy nor even guarantee democracy.

The road to freedom-economic and political, is what this study proposes to illuminate. The best path, one that brings the nation to a new and better plane, is not one travelled without high costs. It is however a journey which Latin America cannot afford to delay. Despite the costs, Chile's road is proving the source of national success and unlimited potential. Why Peru is confronted with challenges to its very survival and Chile is presented with new and exciting possibilities is both the key question and critical answer this examination seeks to provide.

II. PERU'S ECONOMY

A. THE POLITICS OF ECONOMICS

Latin America possesses a dual identity: a region comprised of independent political states is contrasted by the image of the region as a single entity, existing as a subordinate unit in the U.S. sphere of influence. This duality is present within as well as between Latin states. For example, Peru and Chile, both ostensibly democratic states, have, in the latter half of this century, experienced radical shifts in government. This shared history has encompassed military governments of both the left and right, as well as populist/center-left civilian administrations. In each case and in each country, distinctly different economic models were adopted, followed, modified and, until Chile after 1973, abandoned in the wake of national economic and political failure. What makes the Peruvian and Chilean experiences so noteworthy is their development as unique expressions of not only economic but political and cultural identity in each state. In both cases economic models reflect political choices by competing power groups within the society, but manifest consequences that affect not only the particular state but that nation's relationships in the international arena. In Peru's case the economy was made a political prize; something won by the president and subsequently defined and directed by him. In Chile, Allende attempted to redefine the nation and reshape its political identity based upon his interpretation of the president's right and ability to control the economy. Pinochet in turn made the model upon which the economy was to be rebuilt the basis of government power and the core of

national identity. In both countries however, the interaction of economic models and political ideologies resulted in the ostracism of Peru and Chile, although in different international spheres. Peru, with its democratically elected president maintained political dialogue with the U.S. and the West while simultaneously broadening its appeal to and influence with Third World states; especially in the Non-Aligned Movement. This enhanced political power was matched by the nation's increasing alienation from the international capitalist system. Not only did the national economy suffer as a result of the president's placing his priority on the political, but Peru's economic model failed the viability test in the international economic arena as well. Chile's experience was just the opposite. Having overthrown a democratically elected president (albeit his being a Marxist with the declared intention of restructuring the socioeconomic system in Chile), the Pinochet regime was generally branded a "repressive dictatorship" by the United States and the West. Cut off from the political support of these democracies, Chile was in many ways constrained to communicate with the world in the only channel open to it-the international economic sphere. In this arena Chile developed a free market economic model that produced positive results and would achieve success beyond that of not only Peru but any state in Latin America. The fundamentally different economic models adopted by each and the distinctly political component thereof makes these two nations especially illustrative case studies. It is the aspect of economic and political interdependence and interaction upon which this examination will focus. As Benjamin Higgins has observed:

In particular, the countries that have gone Communist have not been those in which capitalist development has been most advanced but those in which it has lagged. (Higgins 1968, 85).

Economics as both cause and effect will be stressed so as to establish a case in which economics is shown to be a primary force shaping political relationships in both the nations examined and, more importantly, throughout Latin America.

In examining the experience of Peru it will be seen that rather than existing independently, economic models were adopted to support and enhance the president's power in both domestic and international political arenas. Further, a detailed examination of the 1985-1990 period, in which Peru's economic model incorporated heterodox economic strategies, will be given particular attention in order to detail not only the economics-politics relationship but to illustrate the cost an unsupportable/incorrect economic model imposes on a society.

B. ECONOMIC SELF-DESTRUCTION

Peru is a nation threatened with destruction. The threat does not however originate from outside the nation's borders. Rather, Peru's internal environment is failing to produce the economic, political, and sociological strength critical to uniting and nurturing a society; that preserves a nation. Peru has taken itself to the brink of economic collapse and from this march toward oblivion have sprung political divisions and cultural cleavages that threaten to engulf and destroy democratic institutions and processes in the demise of Peruvian society. National political leaders, adopting flawed economic models, and refusing to accept the political costs of corrective strategies, have drained Peru of both the economic and

political power inherent in sovereignty. Speaking about contemporary Peru, Alan Riding noted that:

Until recently...Peru seemed to be just one more besieged democracy. Suddenly it became apparent that Peru was caught up in a much more acute drama, in which not simply a government but an entire society was falling apart. (*The New York Times* 14 May 1989, 40).

The international economic system, while not oriented to initiating correction of the heterodox economic model adopted by Peru in 1985, is likewise not guilty of "driving" the economy to its present position. As will be demonstrated, it is the failure or refusal of political leaders, particularly President Alan Garcia, to abandon an ineffective political-economic system that has compounded the negative consequences of unsupportable economic strategies. Despite the emphasis being necessarily placed on the economic aspects of this phenomenon, its political component is undeniable and its consideration inescapable.

Although this examination will focus on the economic strategies of the Garcia administration, a brief review of the regime's predecessors will help place the present crisis in perspective. Peru's history is one of almost synchronized alternation between military and civilian regimes.

The changes in government reflect the search for a national economic strategy as well. The Peruvian economy has continued since the early 1960s to be based on these four characteristics: the quest for an appropriate model of development, the export sector, industrialization, and agriculture. (Sanders 1984, 3).

Failure to prioritize and coordinate the complex interrelationship of these elements has determined the fate of both governments and the economy.

C. MILITARY-AUTHORITARIAN FAILURE

The Belaunde Terry regime was displaced by a military coup in 1968. The twelve year military rule was marked by two phases with distinctly different approaches to the economy and governance. In the first stage, the Velasco regime sought to establish an "organic statism", combining Catholic-dominated social doctrines with corporatist political philosophy. Its major objectives were nationalist and populist, seeking to transfer economic control, hence political power, from both foreign enterprises and indigenous elites to the "masses". Government assigned itself the responsibility of creating the institutions to make this transfer effective. This was the beginning of expansive, populist-nationalist governance in modern Peru. It was, by the standards of the day, a radical departure from the conservative-right orientation displayed by the majority of military elites and regimes in Latin America. Speaking about this first phase of military rule, Thomas G. Sanders noted:

The military regime of 1968 - 1980, especially in its first stage (through 1975), was one of the most controversial Latin American political experiments of the twentieth century. (Sanders 1984, 4).

Once more the intimate relationship between political and economic actors, and between this relationship and political and economic consequences was shown to be a trademark of the Peruvian political system. Anti-capitalist in its rhetoric and orientation, the Velasco regime's economic activities drove not only foreign but domestic investment out of the country.

The second phase of military government, that of General Morales-Bermudez, lasted from 1968-1975, and was marked by a concerted effort to liberalize the regime. The more moderate stance of the Bermudez regime was a reflection of economic reality as much as of the general's political orientation. In 1977, Peru's foreign debt and economic performance were such that creditors openly pressed the regime to accept International Monetary Fund (IMF) involvement in the economy. By 1978 Peru's international debt stood at \$8 billion, requiring more than half the nation's export earnings to keep debt service current. The budget deficit reached 11% of GNP, productivity declined 1.8% and inflation reached an annual rate of 74%. (Werlich 1981). Despite some gains, by the 1980 transfer of power back to civilian leadership, the failure of the military government's economic strategies were clearly evident in the high social costs paid by the Peruvian people, including a 20% unemployment and 40% underemployment rate. It was the failure of economic strategies, combined with the expectation of alternation of leadership rather than some overriding commitment to democratic principles which brought the 1980 Belaunde government to power. Overall, the phenomenon of military-civil governments is assessed as the norm in Peru.

The Armed Forces, it should be noted, have always played an active role in national government and politics. In fact, Peru did not have a civilian president until nearly 50 years after its independence (Manuel Prado, 1872-1876), and in the period since then, military interventions and regimes have been commonplace, interspersed by elected civilian governments. (Sanders 1977, 1).

D. CIVILIAN-DEMOCRATIC FAILURE

The 159th anniversary of Peruvian independence, 28 July 1980, marked the return to constitutional, civilian government when Fernando Belaunde Terry, overthrown by the military in 1968, assumed the presidency. The radicalism of the Velasco presidency, as well as the failures of more conservative political-economic strategies under Bermudez, served to move Peru's polity from either Right or Left extremes toward the political center. Into this environment Belaunde brought what would henceforth become a trademark of his regime: a gradualist philosophy oriented toward achieving change at a lower level of social cost/displacement. More traditionally conservative in his economic viewpoint, Belaunde nevertheless identified with the urban working class rather than the capitalist/social elite. This trait is consistent with the drive to populism which has distinguished Peruvian leaders since the first phase of the military government. Belaunde was elected with 43% of the popular vote. Armando Villaneuva del Campo, the APRA candidate received 27% of the total, and Luis Bedoya Reyes of the right-wing Popular Christian Party drew 11% of the vote. In the election which brought him the presidency in 1980, Belaunde's center-right AP party won 54% of the seats in the Chamber of Deputies and 26 of 60 seats in the Senate. However, even with this apparently strong base, the regime's strategies did little to stabilize the economy. Generally viewed as a variation on traditional free market economics, the Belaunde model failed to address the very same macroeconomic imbalances which had confronted the military. Prices continued to rise, fueling higher inflation; compounded by lower state revenues. The budget deficit which stood at less than 1.5% of GDP in 1979, continued to worsen throughout the Belaunde presidency:

TABLE 1. Deficit as % GDP / YR

5.6	1980
7.6	1981
8.8	1982

By the critical mid-point of his term, Belaunde's administration and policies were in increasing difficulty. His popularity and support fell; AP candidates received only 15% of the national total in 1983 municipal elections. After some initial success with free market policies, the poorly executed gradualism which marked Belaunde's regime, along with a deep recession, combined to bring on a collapse of Peru's economy in 1983. It was the economy's performance which subsequently led to the regime's surrender of the presidency to Alan Garcia by mid-year 1985. GDP fell 12% in 1983, real wages fell by 20%, eventually sinking to only half their 1973 levels. Inflation reached 72.9% in 1982 and 158.3% in mid-1985 when Belaunde left office early so as to permit the incoming Garcia administration an opportunity to implement its economic program.

In the preceding section it was shown that just as the political system manifested a pattern of alternation between regime types, the economic policies of national leaders likewise can be seen to have been marked by significant alternation, gradualism, and a tendency for regimes to be reactive; to fall behind economic indicators in instituting changes in their programs. Governments attempted to respond to the economy after large deviations rather than keep the initiative and control economic fluctuations through pro-active policy development and timely implementation.

From 1968 through 1985 Peru experienced two military and one civilian regime, politics of the left, right, and center; as well as no less than four distinct

and non-complimentary economic models. One thing all these variables share however is the fact that they failed to achieve permanence as a national economic model or produce, even while operative, consistent results. This assertion is supported by the fact that each succeeding regime instituted its own version of an economic model for, rather than with, the nation. Thus the economy became directly linked to and associated with the regime itself. The same political-economic factors which resulted in regime change likewise guaranteed new and different fundamental economic strategies by the incoming Executive. There was no evidence of a commitment to a Peruvian economic model; there was only the economic model a particular regime committed itself to. It was into this clouded environment, into this deteriorating economic climate that a second constitutionally elected president, Alan Garcia, charged in 1985.

E. THE GARCIA PRESIDENCY

There are several key elements of Peru's political culture that were instrumental in bringing Garcia the presidency. A review of these elements is warranted so as to more fully understand the strong economic component in Garcia's program as well as the dominant place economic issues occupy in shaping political relationships and setting the standards by which government performance is judged.

As noted earlier, the collapse of Peru's economy in 1983, the nadir of Belaunde's economic program, resulted in another shift of popular political orientation; this time toward a centrist position. It was in response to this shift in the source of popular support that APRA reoriented its image and platform so as to capture this vital political space. Founded in 1924, the party had originally

constituted itself as "...a Peruvian and Latin American version of a Marxist party." (Sanders 1984, 4). Consistent with this identity the party professed an ideology of anti-imperialism, Latin unity, nationalization of the means of production, indigenous liberation from exploitation and the eventual triumph of the "oppressed masses". (Sanders 1984). Such an identity made APRA anathema to the traditional socio-political elite. Armed violence involving military personnel and APRA loyalists was subsequently used as the justification for the military's suppression of the party. The softening of the APRA platform, combined with the inability of the military in the twelve years preceding Belaunde's regime, to solve the nation's economic decline made it possible for APRA to earn entry into the political arena. It was the hope engendered in the electorate by the nationalistic-populist platform and personal charisma of the APRA candidate, Garcia, that brought about the dually historic events of 28 July 1985.

The other side of this historic occurrence was, of course, the failure of the Belaunde economic plan. Of the relationship between presidents and the resulting articulation of new economic models with each succeeding regime, it was noted in *Debt and Democracy in Latin America* that:

The abject failure of the Belaunde policies, together with the orthodox rhetoric, opened the way for an explicitly heterodox experiment under Alan Garcia and the APRA. (Stallings & Kaufman 1989, 209).

By 1984 a new era was dawning in Peru. Economic crisis fostered and compounded by both military and civilian regimes created an opening for Garcia and APRA. In the 1985 elections, Garcia identified himself as representing a moderate, center-left position, and distinct from the United Left (IU) coalition.

Garcia effectively staked out a position more like a Social Democrat than a traditional leftist candidate. The combination of economic crisis and political opportunism combined to create an environment offering the hope of change; the prospect of leadership capable of taking control of the deteriorating economy was the overriding criteria by which candidates were judged. In the 1985 elections the political Left (APRA/IU) garnered more than 70% of the popular vote. Garcia himself was elected president with a 48% plurality-the largest in Peruvian history. Alan Garcia combined his personal appeal and populist-interventionist economic strategies to offer the electorate exactly what they most wanted: hope. What could have and should have been offered, but was not, was a realistic program of effective economic strategies that would be the basis of a truly national economic model for achieving first stability then growth. However, the efficacy of Garcia's campaign and the desperation of Peru's people were reflected in the 76-90% popular support he enjoyed just after taking office. At his inauguration in July, Garcia's economic plan and Peru's latest series of crises began. Again, the link between the political and economic; between cause and effect in Peru is marked and clearly manifested in the Garcia presidency as being both the source and symbol of the nation's economic, political, as well as societal crises that have reached critical proportions.

F. 1985: THE END BEGINS

Alan Garcia had a mandate from the Peruvian people to govern the nation but, most importantly, repair the economy. His, and at the time of his inauguration, APRA's perception of that mandate was centered on the belief that the highest priority for the government was to stimulate economic growth. In light of the ever-worsening inflation gripping the nation in the wake of the 1983

collapse, growth as an end unto itself was not a realistic goal without first achieving recovery and stabilization. Such was the nature of populist politics and personal popularity that growth was the hope and the currency with which Garcia captured the presidency and set the economic agenda. Therefore, regardless of feasibility, growth was the message and medium of the Garcia administration's economic strategies.

The tone for Peru's new relationship with the international economic community was set during Garcia's inauguration speech when he announced that henceforth, Peru would limit its foreign debt payments to 10% of export earnings. Such a unilateral declaration was to become the trademark for the populist economic strategies the administration committed itself to throughout its term in office despite the unrealistic premises upon which they were built, as well as their demonstrated failure to achieve long term economic gain for Peru.

The government immediately implemented a heterodox economic plan based on the dual priorities of reducing inflation and *stimulating the domestic economy* to achieve recovery. A Heterodox economic model is one in which an active state role in the economy is understood to include the government assuming a leading role in investment in and regulation of the economy. With a heterodox model, the Garcia regime was much more willing to risk confrontation rather than seek accommodation with its creditors. Finally, such a model committed the regime to government-directed rather than market-determined distribution of wealth. True to his populist orientation, Garcia's strategy was one where boosting domestic consumption was perceived as the key to expansion.. Such a plan would of course

also reward the lower and middle classes from which APRA derived not only its identity but its power.

The simultaneous attempts at depressing the price spiral and reactivating the rest of the economy have resulted in what Peruvian economist Javier Iguiniz calls the 'brake and accelerate' effect. According to government officials, the primary goal has been 'to consume in order to reactivate,' or in other words, stimulate production and therefore growth through increased demand. (Washington Office On Latin America 1987, 7).

The means by which the Garcia plan was to be accomplished involved once more mixing political perceptions and economic indicators to produce strategy that its creators viewed as socially beneficial but also politically enhancing. Demand stimulation was to be accomplished through regular wage hikes combined with price controls. Along with the administration's previously announced limit on debt service, and Peru's increasingly contentious relations with the International Monetary Fund (IMF), and other multilateral agencies, the heterodox model adopted by the Garcia regime must be seen as driving the nation toward isolation in the international economic community. Peru was effectively cut off from foreign credit while, at the same time, consumption-led economics demanded an ever-increasing capital investment by the state. Publicly financed wage hikes along with the losses imposed by price controls were moving Peru inexorably toward an unsustainable position. Yet, the imposition of political rhetoric into the case served to uncouple the desirability of the plan and its goals from the costs of its execution. While, for example, there was justification for concern over the foreign debt load, a much less contentious position should have been pursued in addressing this issue. Debt service in 1985 was more than 100% of export earnings despite the

debt's having already been written down to one half its value on the New York market.

The quality of Peruvian debt, as viewed by the secondary market, has steadily declined since 1985. In July 1985, when Mexico traded at 60 cents on the dollar, Brazil at 75 cents, and Argentina at 60 cents, Peru already was down to only 45 cents. By January 1986 the price had declined to only 25 cents per dollar. (Dornbusch 1988, 33).

From this position Peru would certainly have had difficulty availing itself of new money but it is unlikely that a cut-off would have occurred had the Garcia administration worked with rather than outside the international economic system. The need to address the too large debt service ratio cannot be viewed in isolation from the issue of national deficits and inflation as integral components of an economic whole rather than as distinct elements to be addressed in pursuit of political advantage at the expense of economic relationships and responsibilities. Speaking about the 1985 version of Garcia's economic strategy, the "emergency plan", Stallings and Kaufman note in *Debt And Democracy In Latin America*:

On the domestic side, the emergency plan, borrowing the heterodox stabilization policies that were simultaneously in effect in Argentina [Plan Austral], presented an alternative to the IMF's prescription of tight monetary approaches to halt inflation. Instead inflation was to be fought through direct price administration and the control of imports and foreign exchange. (Stallings&Kaufman 1989, 172).

President Garcia had a plan by which he hoped to stimulate economic recovery. At the same time this strategy was favorable to the lower socio-economic classes, it was likewise acceptable to a broad spectrum of the population because it was couched in terms of nationalism and anti-imperialism.

G. SHORT-TERM SUCCESS & LONG-TERM DECLINE

The Garcia administration's economic strategy initially yielded positive results. Strong foreign reserve holdings (\$1.8 bil) inherited from the Belaunde government were utilized to underwrite the economic expansion fueled by consumption. Wages increased sharply along with employment in the first two years of the initial program. However, by late 1987 the nation was running out of foreign reserves needed to continue subsidizing the economy. By 1988 the situation would be so deteriorated that:

The state press agency Andina quoted the Energy and Mines Minister, Jose Causco, as saying that Peru's foreign cash reserves had dwindled to \$50 million. (*Newsweek* 26 Dec 1988).

The economic strategy's success was always seen to be contingent upon effecting a successful transition from subsidized consumption to investment - led expansion as the basis for economic growth. As noted by Stallings and Kaufman:

Heterodox policy, as nothing more than a short-run inflation management strategy had the disastrous effect of holding down those key prices, including interest and exchange rates, necessary to build a strong private-sector economy. (Stallings & Kaufman 1989, 177).

In order to place the Garcia administration's performance in perspective, data for the period of democratic governance from 1980 through 1989 is presented here. The table lists Main Economic Indicators for Peru and highlights not only the position from which the Garcia regime began its heterodox policies but clearly illustrates the phenomenon of early success and the onset of long-term decline.

TABLE 2. MAIN ECONOMIC INDICATORS 1980-1989

	80-84	85	86	87	88	89
Real GDP Growth	-1.0	2.4	9.5	6.9	-8.6	-10.0
Real Per-Capita GDP Growth	-3.6	-0.2	6.9	4.3		
Real Consumption Growth	-0.4	2.3	12.1	5.8		
Inflation Rate (Dec-Dec)	87.0	158.3	62.9	114.5	1722.6	2949
Broad Money Supply Growth	94.0	122.4	64.4	110.9		
Non-Financial Public Sector Deficit (% GDP)	6.8	2.4	4.9	6.5		
Current Account Deficit / GDP	3.9	0.3	5.0	4.9		
Gross International Reserves (\$ US millions)		2,283	1,961	1,130	300	
Foreign Debt/GDP [a]	51.0	76.9	59.6	47.1	118	
Accrued Debt Service Ratio	61.1	69.7	78.0	79.5		
Paid Debt Service Ratio	53.7	34.5	18.8	12.5		
Real Exchange Rate (1978 = 100) [a,b]	129.7	100.4	115.3	133.2	500	2486
Terms of Trade (1978 = 100)	114.6	96.1	78.0	76.5	-56	-1570
Real Wage (1980 = 100)	90	61	81	89	62	
Employment Growth (%)	2.2	-0.5	4.3	5.7		
Utilized Capacity Index (%)	56	45	61	67		

[a] Evaluated at the weighted average of all current commercial exchange rates.

[b] An increase in the series means real appreciation.

Source: National Statistical Institute, Ministry of Finance, Central Reserve Bank, ECLAC, World Bank.

It is noteworthy to point out that the export sector which was supposed to pay for the economic programs envisioned by the government, and investment, the hoped-for result, failed to achieve positive levels. This exacerbated the plight of an economy subsidized by the state and in which private sector investment had to reach new levels if the momentum of 1986 was to be transformed into steady performance. It is on this point that the Garcia government's economic model faltered. Specifically, the critical second phase, where private investment would take the lead in energizing the economy and fueling growth was an ideal that could not be realized as a consequence of the distortions imposed on the economy by the model adopted by the regime. Consumption-led expansion in phase one was financed by the public sector transferring large amounts of income to the private sector and initiating measures to utilize slack industrial capacity. The second phase, where sustained growth was to be maintained, would focus on investment and exports as the source of finance. The second phase strategy was however, neither fully developed nor coherently articulated. It was the ideal used to justify phase one but one to which the Garcia's economic strategy could not transition. Expanding output by filling slack capacity, price freezes, wage increases, and virtual exclusion of imports competing with domestically produced goods, resulted in positive momentum in 1985-1986. However, the government program

carried costs that were overlooked or minimized in assessing their impact on economic stability and long-term growth. Export sector performance was unsatisfactory in the wake of the government initiatives. Merchandise exports declined 16% in value as a result of both a 19% deterioration in Peru's terms of trade as well as the shift of these products into the artificially-expanded domestic market. The critical element of investment was likewise shown to be lacking. According to the Peruvian National Statistical Institute, investment in plant and equipment did no more than:

...barely maintain[ed] the historically low ratio to GDP observed in 1984-85 (7%). Thus, the real investment in equipment was actually 30% lower than the average for 1984 - 85. (World Bank 1989).

In its instability and unsustainability, what can be seen as a one-sided economic policy was beginning to unravel. Without a clearly defined and articulated plan, the necessary shift to private investment as fuel for the economy was neither forthcoming nor, in light of the government's populist political orientation, likely to be supported by those with the option to invest in Peru or take their capital and profits to safer locations. The government in 1985 assumed the responsibility of creating an "everybody wins" environment by which subsidies would facilitate a rapid improvement in the quality of life for the population as well as serving to stimulate the mechanism of economic expansion. Without a clearly defined and understood regimen in which the state set limits on its involvement in and support of the economy, the administration's popularity was perceived as a guarantee of continued state intervention. Lacking a coherent plan to facilitate its withdrawal or to stimulate investment in the economy, the Garcia

strategy could do little more than feed on itself. As Rudiger Dornbusch has observed:

By late 1987, growth was petering out and inflation-brought about by external constraints, bottlenecks, and the adjustment of severe price distortions-was exploding. (Dornbusch 1988, 34).

The Peruvian government had set itself up for failure by committing to a strategy that addressed domestic economic indicators but ignored larger macroeconomic imbalances. The government was not capable of sustaining the levels of subsidy required to "stay even", let alone foster sustained growth. The brief gains of the 1985-1986 period were largely financed with the state's foreign reserve holdings - themselves an asset inherited from the Belaunde administration rather than one developed by the Garcia regime. Drawing down foreign reserves, combined with the consistently unsatisfactory performance of the export sector, meant that Peru was simply spending more while earning less-a wholly unsustainable position. Gross foreign reserves reported by both Peruvian and multilateral agencies at \$2.2 billion in 1985 declined to \$1.9 billion in 1986 and \$1.1 billion by 1987. Additionally, a trade surplus of more than \$1 billion in 1985 was, by 1987, a \$.5 billion deficit; which stood at -\$1.57 billion by 1989. In supporting its populist economic strategies the state simply continued to increase disbursements while at the same time taking in less revenues. State-mandated price controls and intervention throughout the economy distorted the export sector and was a disincentive to private investment. The "everybody wins" strategy was rapidly breeding an "everybody loses" crisis.

H. POLITICIZED ECONOMICS

By 1987 the Garcia administration was initiating measures to treat, yet again, the symptoms of Peru's deepening economic crisis. The principal measure of the nation's economic plight was the steady drain of foreign reserves. To stem the outflow, the government in January 1987 initiated a monthly devaluation (2.2% / mo) of the two principal exchange rates (official and financial). This attempt at gradualism, symptomatic of the administration's approach to economic issues, was insufficient to check the internal versus external inflation differential resulting from specific government intervention in selected sectors. Peru's currency continued to appreciate, feeding ever-increasing financial imbalances. In March, imports were made subject to Central Bank controlled foreign exchange licenses while at the same time granting artificially weighted exchange rates to selected groups in the export sector. The arbitrary nature of export sector advantage was itself insufficient to make the entire sector realistically competitive. Thus, this aspect of the regime's program can be seen to have resulted more in specific actions popular with certain advantaged sectors, but never achieved status as a coherent national economic strategy. The continuing rise in inflation coupled with regularly-scheduled wage increases resulted in a likewise continuing misalignment in government revenues. State enterprise revenues dropped from 17.8% of GDP in 1986 to 14.4% in 1987, as reported by the Ministry of Finance and the Central Bank.

Two years after the inauguration speech in which he proposed limiting debt service to 10% of export earnings, President Garcia was leader of a nation increasingly isolated in the financial arena and more, a nation where the economy

was unravelling; taking with it the very elements of society for whom the economic model was supposed to work. On 28 July 1987 President Garcia announced, apparently without consultation with APRA or the financial sector, the nationalization of Peru's banking industry. The bank nationalization, ostensibly to "democratize credit", shocked not only the financial sector but a broad segment of Peru's business and middle classes. 6 commercial and 6 investment banks, along with 13 insurance companies were affected by the decree. However, the regime felt a strong backlash and as noted by Alan Riding:

The turning point [in Garcia's popularity] for many Peruvians was the President's decision to mark his second year in office on July 28 by nationalizing banks, a move that alienated the private sector and alarmed the urban middle classes who saw it as a step toward socialism. (*The New York Times* 10 Nov 1987).

The political costs of this measure certainly exceeded any gains, political or economic, that Garcia should reasonably have expected to accrue. "Democratizing credit," making the financial sector more responsive to the lower socio-economic classes upon which the Garcia ideology and personal identity were built, was appealing rhetoric but the president appears to have gotten caught up in his own populist pronouncements. Prior to the nationalization, the state already exercised direct control over almost 50% of all deposits and 70% of credit. Further, fully one third, 8 out of 24 operating commercial banks were already government owned. Within that part of the sector still in private hands credit was tightly regulated under the authority of the Central Bank which mandated interest ceilings as well as setting regional investment quotas the banks had to meet.

The 1987 economic initiatives can be seen once more to combine gradualism with political populism to set an agenda in which President Garcia must bear responsibility for exacerbating and accelerating Peru's economic demise. With both foreign and domestic investors shipping capital abroad, there could be no private sector resurgence to stimulate economic growth. It might well be argued that, with such limited impact on such a small number of institutions, the bank nationalization initiative can be viewed as an effort by the president to bolster his domestic popularity by creating a sensational issue incorporating nationalism and a chosen symbol for, rather than a real cause of, Peru's economic crisis-the banking industry. This interpretation reflects the earlier assertion that, beyond consumption-led expansion, the Garcia regime had no real plans for directing the nation's economy. Garcia's growing isolation within the domestic sphere was reflected in rejection of his policies by the Left as insufficient, and by the Right as unacceptable. From a centrist consensus at the time of his election, the failed policies of the Garcia administration were already creating forces separating the polity along an increasingly radicalized spectrum. A 1987 survey in Peru reported that 72% of businessmen disapproved of government economic policies and 75% said they had little or no confidence in the government's intentions about "democratizing credit". (Washington Office On Latin America 1987, 11).

The year in which President Garcia announced bank nationalization was one in which his personal popularity, populist political ideology, and heterodox economic model all showed signs of failing. The Peruvian economy was both the cause and effect of an intricate interplay of the political and economic. In manipulating these factors in what was at best an ill-conceived strategy; at worst

blatant exploitation in furtherance of personal ambition, President Garcia failed to build a national consensus around values and goals to which the Peruvian people could and would commit themselves. If consumption-led expansion had facilitated transition to investment-led growth, his regime certainly would have been credited with taking the lead in this effort. In the absence of consensus and without accepting responsibility for failure as readily as for success, Garcia ended 1987 as president of a nation lacking leadership. As Riding noted in *The New York Times*:

With investment at a standstill, inflation expected to exceed 120 percent this year and no coherent economic policy in place, they [economists] unanimously predict rougher times ahead. (*The New York Times* 10 Nov 1987).

I. THE END-AT THE EDGE OF AN ABYSS

Predictions for a bleak economic future were, as it has turned out, very accurate. Under the weight of continuing excessive expenditures, and without sufficient revenues, the Garcia administration's economic policies drove the nation ever-closer to not only economic but sociopolitical collapse. By 1988 hyperinflation had taken hold in Peru. Combined with deepening recession, the external debt load was now higher than GDP. The U.S. Embassy in Lima, reporting on Peru's economic condition, provided a starkly revealing assessment. Information in the *Economic Trends Report* issued in 1988 included:

TABLE 3. PERUVIAN ECONOMIC PERFORMANCE SUMMARY

Inflation:	1721% (govt) / + 2100% (independent analysts)
GDP:	-8.9% (additional 17% possible in 1989)
Manufacturing Output:	-13.8%
Industrial Output:	-32.0% (Q1)
Foreign Debt:	\$16.6 bil (Dec 88) = 118% estimated 1988 GDP 6 X value of 1988 exports.
Mining:	Copper (-26%) Lead (-25%) Zinc (-20%) Iron Ore (-9%) Silver(-24%)

note: Mineral exports accounted for 52.4% of Peru's total 1988 export earnings.

(U.S. Embassy, Lima 1988).

The U.S. Embassy report paints a picture of a nation committing economic self-destruction. According to reports by other multilateral agencies monitoring the crisis, of the \$1.1 bil gross international reserves reported by the Central Bank, only about \$300 mil were readily liquid. (World Bank 1989). Despite the clear evidence of the failure of government economic policies, the Garcia administration continued to attempt a process of gradual adjustments that lacked either the impact or consistency to be compelling and effective. The administration was reported by the Peruvian press to have been negotiating with the IMF and World Bank to develop a strategy acceptable to both the agencies and the government which might reopen drastically needed sources of international finance. Although never officially acknowledged by the government, a tentative agreement was apparently worked out. However, in a telling display of the personal dominance of Alan Garcia over all other parties and institutions of government, the president

unilaterally modified the terms of the accord; voiding it and prompting the resignation of the Finance Minister. This incident illustrates once more the connection between President Garcia's political ideology and its imposition on and domination of Peruvian governance and the economy. The depth of the nation's despair and the seriousness of the situation was increasingly present in the open commentary in the press.

Describing Peru's mood as 'generalized semi-insurrection,' the conservative daily *Expreso* said the situation has gone beyond lack of confidence in the Government to 'fear of a total decomposition of social order, of hunger and of establishment of the law of the jungle.' (*The New York Times* 30 Nov 1988).

Within Peru, loss of faith in the President and his policies prompted a call from opposition elements for an even earlier departure from office than had been the case when Belaunde relinquished the presidency to Garcia in 1985. In both instances, however, economics and the national economy were at the center of the call for resignation. In November, 1988 the center-right coalition, Solidarity & Democracy published an open call for Garcia to resign:

In the firm belief that you, Mr. President, are the main cause of the moral and economic decline of the republic and the basic obstacle in its recovery, we beseech you, in respect of the strictest constitutional channels, to resign, Mr. President. (*Financial Times* 16 Nov 1988, 9).

The magnitude of the crisis confronting Peru, even in 1988, is difficult to grasp from a position outside the experience. Such expressions represented a plea for effective action to resolve what was increasingly perceived as a threat to the continuance of civilized society in Peru. There was however no let up in President Garcia's use of government as a tool of his personal world view. The extent of

Garcia's personalism is indicated in the turmoil within his own government apparatus by the end of 1988. The evidence points to the Peruvian president being unable or unwilling to confront the failure of his economic model. The depth of the crisis was clear. Abraham F. Lowenthal, writing in the *Los Angeles Times* summarized the totality of Peru's dismantling as follows:

Declining export proceeds, disinvestment, capital flight and the government's artificially expansionary economic policy have produced net negative reserves.... No clear and credible national economic strategy is yet in place. (*Los Angeles Times* 23 Oct 1988).

President Garcia was guilty of fomenting an economic crisis and then driving Peru toward bankruptcy.

J. FINAL ACTS

The fourth year of Alan Garcia's presidency did not bring with it needed change nor even the prospect for improving the nation's economic situation. As 1988 turned into 1989 Peruvian society remained trapped in a downward spiral of mismanagement that threatened the very fabric of national identity. The inescapable link between the economy and politics, and vice versa, was reflected in the increasing alienation of the President from virtually all other positions on the political spectrum. A telling commentary was provided by Misko Lauer, chief editorial writer for the center-left (Garcia/APRA's 1985 identity) Lima daily *La Republica*, who stated:

Inching toward its ninth year, Peru's democracy has become one of the shakiest in Latin America, and it is suddenly fashionable to speculate whether

it will make it to the July 1990 elections. Peru's economic chaos...is seen as the main cause of uncertainty. (*The New York Times* 20 Nov 1988).

The case against the Garcia administration consistently and inescapably returns to the failure of the heterodox economic model imposed by a populist president on an already stressed economy. The nation's dismal economic performance under Garcia has resulted in both devastating loss of popular support for Garcia as well as dooming APRA to having his failure as the legacy of the party's performance while in control of the government. With an overwhelming 96% approval rating just after taking office, Garcia's popularity dropped to 9% by 1989. Beyond this personal rejection, the president's failure has tarred his party. In the 1989 elections, APRA candidates obtained only 18% of the national vote as compared to 45% in 1986 municipal elections. (*The Wall Street Journal* 24 Nov 1989). The political spectrum is being polarized once again as Garcia's failure is driving the electorate out of the moderate center toward more radical political identities. In a personal popularity poll conducted in connection with the 1989 elections, the IU, a leftist coalition led by the Communist Party had a 17% popularity rating. The center-right coalition, Fredemo, earned a 37% rating. More telling was that the center-right presidential candidate Vargas Llosa earned an even higher 45% popularity figure. (*The Wall Street Journal* 11 Aug 1989). By 1989, the shift in national sentiment was undeniable; yet for Garcia it was apparently not compelling, as the regime did not act to initiate corrective or even damage limiting measures. Peru was trapped in the self-destruction of its economy; with the president leading the nation toward oblivion. The trail of economic collapse changed monthly (daily in some areas), but always in a negative

direction. By mid-1989, opposition economists were forecasting a public sector deficit of \$1 billion.

They further calculate that last week's issue of fresh money [500 bil Intis Garcia's hand picked directors in the supposedly independent Central Bank transferred to the state] would by itself push up inflation from a monthly average of 38.8% in the first half of the year to 41% in August and 43% or more thereafter. Since the beginning of the year, they reckon, half of all spending by the central government has been uncovered by tax revenue. The annual inflation rate is expected to turn out above 7,000%. (*The Economist* 29 Jul 1989).

Data on the rapid decline of the economy between 1988-1989 will serve to illustrate not only the extent but the rapidity of the negative spiral trapping Peru. The Central Reserve Bank and Ministry of Economy provided the following information as part of resumed communications with the World Bank and other multilateral agencies. The performance of the Garcia regime and the failure of it's heterodox economic policies is unmistakable.

TABLE 4. Key Economic Indicators-1988

	Real GDP	Inflation/month(a)	Cumulative
Jan	100	12.8	
Feb	106.2	11.8	
Mar	108.2	22.6	
Apr	101.6	17.9	82.3%
May	100.3	8.5	97.8%
Jun	98.0	8.8	115.2%
Jul	91.3	30.9	181.7%
Aug	91.3	21.7	242.8%
Sep	90.5	114.1	633.9%
Oct	80.6	41.0	934.8%
Nov	na	25.0	1,193.6%

(a) % increase over previous month.

Source: World Bank

TABLE 5. Inflation Summary-Garcia Administration - 1985-1989

% / YR				
1985	1986	1987	1988	1989
158.3	62.9	114.5	1722.6	2949
Source:ECLAC				
163.4	77.9	85.9	1722	2775

Source: 1985-87 IDB / 1988-89 World Bank.

TABLE 6. GDP Summary-Garcia Administration - 1985-1989

% Change GDP				
1985	1986	1987	1988	1989
2.3	9.0	7.3	-8.6	-10.0

Source:ECLAC, World Bank.

TABLE 7. Trade Balance Summary-Garcia Administration - 1987-1989

\$ U.S. Million				
1985	1986	1987	1988	1989
		-517	-56	-1570

Source: ECLAC, World Bank

TABLE 8. Exchange Rates - 1988-1990

Inti / \$U.S.		
1988	1989	1990
Jan - Aug: 33	Sep: 2,486 (official)	5,422 (official)
Sep - Oct: 250	4,165 (parallel)	13,100 (parallel)
Nov: 500		

Source: Central Reserve Bank, Ministry of Economy, IMF, World Bank

K. 1990: TO THE END-TOWARD THE BEGINNING

The new decade arrived without offering Peru a clear path out of its economic morass, but setting the stage for yet another shift in national leadership as the first step in a new direction on this now-familiar journey. President Garcia's

economic policies have proven themselves a disastrous failure. Hyperinflation, a severely devalued currency and capital flight are but a partial description of the chaos engulfing the nation. With his personal approval ratings at an all-time low, the president could no longer claim his most enjoyable role as the spiritual as well as political leader of the lower classes. Polarization and dissatisfaction with his performance in the nation's highest office set the stage for the coming elections; guaranteeing still another shift in ruling party, political ideology and economic model.

Heterodox economics have failed completely in Peru. Added to this fact is the extended duration of the period in which the administration attempted to force these strategies on the economy; seeking to "prove" the viability of Garcia's populist political ideology as an organizing principle for the nation. In stressing continued intervention in the economy, the Garcia administration effectively locked itself out of either economic or political power. As noted in *Debt And Democracy In Latin America*:

Having lost its momentum as a long-run force for restructuring the economy, heterodoxy only intensified the inverse relationship between a more interventionalist model and the capacity of the Peruvian state to intervene. (Stallings & Kaufman 1989, 177).

The Garcia administration, and with it Peru, continued to rush toward the brink of economic-based social collapse throughout the first months of 1990. A payment of \$42.3 mil in December 1989 was a last minute effort by the regime to avert Peru's being formally expelled from the IMF. (*Latin American Regional Reports* 1 Feb 1990, 5). With arrears of about \$800 mil on its IMF account, the Peruvian government had not even maintained a dialogue with the Fund during

the previous 18 months. A testament to the animosity President Garcia feels toward the IMF in particular, and multilateral agencies generally, is that even with his economy in such dire straits, he could not or would not admit to the need for the kind of assistance only these organizations can provide. While there is now reported to be movement toward establishing a program for addressing Peru's arrears, the Garcia personalism is again seen to be the principal impediment to timely implementation of such an agreement.

One official close to the mission, the first of its kind in more than 18 months, reportedly characterized the talks as 'purely political, a useful face-saver for both sides.' Local analysts predicted that a long-term agreement with the IMF would not be reached before the end of President Garcia's mandate in July next. (*Latin American Regional Reports* 1 Feb 1990, 5).

There is certainly the need for interaction between the Peruvian government and multilateral agencies, but in a telling affirmation of the politics-economics relationship, it is seen that the priority of politics can hold economics prisoner; in Peru as well as between Peru and other international actors and agencies.

The options open to Peruvians are quite limited; defined to a large extent by the economic models associated with the political parties/candidates competing for office. Peru's radicalization is reflected in the fact that in contrast to the centrist-populist platform associated with the Garcia campaign/regime, the leading candidates in 1990 proposed economic models of the right and left. Vargas Llosa, candidate of the center-right Fredemo coalition is a strong proponent of free-market economics. Initially, the other top contender, former Lima mayor Alfonso Barrantes, candidate of the Left, proposed a socialist economic model. The Peruvian electorate is clearly dissatisfied with Garcia, APRA, and the regime's

economic policies. In polls conducted in March, Llosa had a popularity rating of 53%; Barrantes 15%. The United Left (IU) candidate Henry Pease had an 8% rating as did the APRA candidate Luis Alva Castro. (*Latin American Regional Reports* 8 Mar 1990, 6). Alberto Fujimori, the surprising second-place finisher in the 8 April elections drew only a 3% rating in March popularity polls.

When Peruvians voted on 8 April they again made an unprecedented and unexpected choice concerning the nation's economic future. Although Vargas Llosa led the election with a 32% plurality, he did not receive the mandate he has consistently stated was critical to implement his free market economic model if he were elected president. Not only did he fail to receive the popular mandate he sought, the fact that he did not receive a majority in the election necessitated a run-off with the second-place finisher, Fujimori, who garnered 29% of the popular vote in April.

Although he subsequently backed away from it, Llosa's stated intention to "shock" the economy into stability once elected was apparently too frightening a prospect for the majority of the electorate to commit themselves to. According to *Latin American Regional Reports*, the shock program would include cuts in state spending and severe reduction in government employment (500,000 employees). Other aspects of the strategy include establishing uniform exchange rates, ending preferential subsidies in both the import and export sectors, eliminating food subsidies and ending all price controls (including those on public goods and services). The stated goal of the program would be to reduce inflation from the 1989 figure of 2775% to 10%. Considering the present state of the population after three plus years of worsening economic conditions, the program as proposed was

opposed by a broad spectrum of political and economic spokesmen who argued that such measures as required to initiate the shock program would literally devastate the population.

The current debate in Peru centers on monetarist-structuralist disagreement over both the root causes of Peru's economic disaster as well as the costs and course of corrective strategies. It is another manifestation of the more clearly political elements of candidate-party-ideological orientation that influences and almost certainly distorts possible as well as operative economic models.

Alberto Fujimori's victory in the 10 June presidential run-off portends yet another shift in economic strategies in the hope of forging a workable national economic model. Fujimori proposes a generally "centrist-technocrat" economic vision that has yet to be articulated as an actual strategy. Due in no small measure to his promise to solve Peru's economic plight by building a national consensus for a "free economy" (not necessarily a free market economy), Fujimori represents Peruvians hopes for a "painless" cure of the nation's economic decomposition.

I. A PARTING PERSPECTIVE

Several lessons emerge from the preceding examination of Peruvian economic reality that point clearly to the direction in which the nation is looking and from which a successful national economic model must emerge. Since 1980 and particularly since 1985, Peru's economy has been the product of democratically elected political leadership being granted a license to define, implement and defend economic models which were imposed on rather than adopted by the nation. The distinction is critical: these models have been less the

product of economics than a reflection of presidents ideological beliefs and personal prejudices. The results of such politicized control of the economy, and the nation's economic model, have been consistent failure followed by repudiation of the past and development of a "new" model. Not only does this phenomenon make the economy a political prize rather than a national heritage, it makes the economy something to be exploited rather than nurtured. The lack of commitment by Peru's presidents and by Peruvians to an economic model oriented toward the future rather than the present has brought not only the economy but the nation to the brink of collapse. The severity of the crisis has resulted in a steady flow of Peruvians out of the country. The numbers reflect a loss of hope for the country's future. As Alan Riding reported:

Current statistics show that 38,000 people emigrated in 1986, 66,000 in 1987 and about 120,000 last year. 'If this trend continues, one million of Peru's 20 million inhabitants will have left by 1992,' Enrique Bernales, a leftist Senator said. (*The New York Times* 21 Jan 1989).

For Peru there has been neither a truly national economic model; one that transcends politics, nor a consensus on what such a model should might look like. A politics-dominated perspective has made economics a zero-sum game. The nation, as both a living community and a socio-economic entity has consistently been subordinated to the interests of sectors, groups, parties, or as is charged in the case of the Garcia regime, the proclivities and prejudices of the president.

To move beyond survival and achieve recovery and growth, will require a commitment not only by the masses who will carry the brunt of the social costs of recovery, but by the national political leadership who must accept responsibility for identifying these costs and staying the course of their payment. Re-creating

Peru's economy will be costly in terms of human suffering as well as in forging new relationship systems within as well as between the nation and the international community.

Peruvian politics, and the economic strategies resulting therefrom, have consistently expressed and at the same time frustrated the hopes of the Peruvian people for a better future. A successful economy, (one independent of partisan political manipulation), can bring about a future, not of uniform benefits (the fallacy of Peru's populist legacy), but of unlimited potential. Its success is a matter of shared commitment to pay the price of possibilities rather than accept the certainty of economic and social ruin.

III. CHILE'S ECONOMY

A. THE ECONOMY AS CORE

The central issue surrounding an examination of contemporary Chile is its economy. Economics was the key factor influencing political events in 1973 and 1990. From the overthrow of the Allende regime in 1973 to the inauguration of Patricio Aylwin as president on 11 March 1990, economics has proven to be the dominant link between Chileans and their government. It was the economy, and government's relation to it, upon which the military based its program for national governance. Separating economics from politics made the former the medium of exchange between Chile and the international community, as well as between Chileans and the government. In the wake of the September 1973 coup, political competition was removed from the realm of activities in which the population could invest itself. The government's free market economic model and its manifestation as Chile's economy became both the measure of national success. General Augusto Pinochet imposed a militant capitalism on Chile-sixteen years later it has been accepted and adopted by Chileans. Today Chile's economy is oriented toward new and different goals; established and articulated by the Chileans themselves rather than merely struggling to meet minimum survival requirements as is the case in the majority of Latin economies.

The key to this phenomenon is twofold. On the one hand Chile's economy is a reflection of its patron, General Pinochet, who first imposed it on the nation and who, throughout the years of its development, has worked to maintain the free

market model's viability despite its political and socioeconomic costs. The other side of this phenomenon is its adoption by the Chilean people as a truly national rather than regime economic model. More than merely accepting the free market economy as a government imposition, Chileans have committed themselves to it as their chosen system of economic relationships. It is noteworthy that in the December 1989 Presidential elections former Finance Minister, Hernan Buchi, architect of the economy's recovery was nevertheless defeated. His association with the Pinochet government appears to have overridden attempts to associate him with continuation of the free market economic model. Simply, Chileans demanded, and all parties to the election agreed, that the national economic model was not a subject for revision by any candidate or party. President Aylwin's Christian Democrat-led coalition has refused to entertain tampering with Chile's free market economic model in pursuit of political advantage. The message to Chileans is that, as investors in the economy, they can be assured of the terms under which they involve themselves in the nation's economic life.

Chilean businessmen say they are not losing any sleep over the end of military rule. 'We trust the Christian Democrats and we know they are not about to change the rules of the game,' Jose Thomas Guzman Dumas, vice-president of Chile's largest private holding company, Copec, has been quoted as saying. (*Latin American Regional Reports* 19 April 1990, 4).

This commitment, of both parties and the population, developed over the course of Pinochet's tenure, has enabled the Chilean economic and political systems to be constituted as distinct phenomena; a vitally important development positively affecting each system and enhancing the efficacy of their interaction. Whereas Latin American governments have frequently limited their options by

utilizing the economy and economic relationships to further a predominantly political agenda, Chile has successfully made the economy a national value in its own right; one that can span the cyclic nature of political contest and different power bases to stand apart as a national rather than sectoral priority. As such the economy must be acknowledged and addressed as operative not only in its own but in the political sphere as well. Making the political system and the politicians accountable to the standard of economic performance exerts a leveling influence on as well as within the political arena; an accomplishment unparalleled in Chilean history. The fact that this phenomenon was the result of both the policies and personality of General Pinochet points to the need for careful examination of the economic and political elements operative in its development as well as the consequences thereof. The critical assertion being made is that it is through an independent economy that the ability to exercise political independence is made possible. As economist Milton Friedman, who would prove to be a prominent figure in the Pinochet-Chile economic model, stated in 1962:

...competitive capitalism also promotes political freedom because it separates economic power from political power and in this way enables the one to affect the other. (Friedman 1962, 9).

The separation and interaction of economics and politics is the focus of this examination. Its absence in the Chilean (and Latin American) experience prior to its inception by Pinochet will be shown to be a central element in creating the conditions for the overthrow of the democratically elected president in 1973, but even more important, making the democratic election of a civilian president in 1989 its natural consequence and possibly its greatest success. A brief review of

the politics-dominated environment preceding Allende's overthrow will help establish both the political and economic conditions confronting Chilean society which precipitated an upheaval of revolutionary proportions which set Chile on a new course.

B. ALLENDE'S CHILE: THE POLITICIZED ECONOMY

The election of Salvador Allende as Chile's president in 1970 marked a turning point for Chile and the world. Democratically elected, Allende, a declared Marxist, attempted to initiate a change in Chile's political identity based upon a new but, as will be shown, not necessarily unique redefinition of national economic relationships. The "Chilean road to socialism" was to be achieved through the vehicle of economic strategies. In this instance the link between economics and politics was one wherein the economy was subordinated to politics and therefore does not exist as an independent phenomenon. It is in the lack of independent status that Allende's strategies are marked as consistent with Latin governmental traditions although his particular political identity and agenda were quite unique in the experience of democratically elected Latin governments.

The Allende regime sought to broaden its support through the application of populist economic initiatives so as to capture the loyalty of the lower socioeconomic classes, thus insuring Popular Unity (PU), Allende's regime, control of not only the economy but of society itself. In *Modern Chile 1970-1989*, Mark Falcoff has noted:

...Allende's planners conceived of the Chilean economy as a 'mechanism highly amenable to control and reorientation. From the command center of the Area of Social Property [a dominant public sector] one could do practically everything,' they presumed, from reducing frauds in foreign trade to

improving tax collection; from facilitating the redistribution of credit to increasing production; from diminishing inflationary pressures to relieving monetary shortages. (Falcoff 1989, 121-122).

What is described here is an example of the not unique orientation of many Latin American governments toward interventionist economic policies. The Allende regime of course did have a unique political orientation in that it intended to use its powers as elected government to reshape the capitalist-democratic nature of Chile's economy and national identity. The normative aspects of such a broad-based approach to economics can likewise be seen to reflect Allende's Popular Unity government articulating then committing itself to an ideal rather than acknowledging and working with reality.

Populism was another dominant trait manifested in the Allende economic model. The effort to capture the loyalty of the lower socioeconomic classes was evident in the regime's pursuit of an unsupportable policy based on increased mass consumption as an economic catalyst. Allende's "socialist consumerism" was neither economically sustainable nor ideologically sound. Not Marxism in practice, it was acceptance of "socialism" being bought with increased popular consumption. Even within the leftist camp Allende's politically motivated economic strategies came under attack. Fidel Castro is reported to have observed:

Marxism is a revolution of production; Allende's was a revolution of consumption. (Rosenstein-Rodan 1974, ...).

Nationalization and expropriation were the means by which the Allende regime sought to implement strategies to achieve its political goals. Capitalist structures were dismantled and the state assumed control over vast areas of the

economy. Drawing on a variety of sources, Falcoff compiled a list of the numbers of firms moved into the public sector by the Allende regime. It is presented here to demonstrate the scope of change imposed on Chile's economy.

TABLE 9. ESTIMATES OF FIRMS IN THE PUBLIC SECTOR

Date	Estimate	Note
September 1970	43	Owned by state at Allende's election
September 1971	187	
December 1971	150	
May 1972	263	SOFOFA (Chilean industry interest group.)
June 1972	264	
Mid-1972	500	
October 1972	211	
December 1972	240	Instituto de Economia y Planaficacion
February 1973	250	
May 1973	285	
June 1973	526	
September 1973	335	Junta estimate

(Falcoff 1989, 130).

The economy, narrowly defined as concerning itself with the distribution of wealth among domestic constituencies, rather than economics, broadly understood as concerning itself with the creation of wealth as a prerequisite to distribution, was the foundation of Allende's strategy. More importantly, it was the economic

reality of exhausted government assets which determined the fate of these initiatives. Mark Falcoff has noted:

One of the very few points upon which both partisans and critics of the Allende regime are agreed is that its economic policy led it to lose control over a volatile political situation. (Falcoff 1989, 53).

The regime's economic policies during the 34 months of Allende's presidency were perceived by the capitalist and military opponents to the regime as driving the nation toward economic ruin. An indicator of the validity of this perception was the rise in inflation that his economic strategies aggravated. Standing at 36% when Allende took office in 1970, inflation would rise to 606% by the time he was overthrown in 1973. (Sheahan 1987, 223). Imports rose dramatically so as to curry popular support, but exports and overall productivity declined. Rising import prices, particularly for food items; lowered copper prices in the world market, combined with the effects of Allende's policies to exert a negative influence on the nation's balance of trade.

...Chile possessed a trade surplus the year Allende took office variously estimated at between \$134 and \$139 million, but showed a deficit of \$427 million two years later. (Falcoff 1989, 62).

The Allende regime was breeding the conditions not for a socialist transition but for its own destruction. A continually-expanding public sector was matched by ever-increasing subsidies in addition to wage and price regimens. Yet, with the nationalization/expropriation effort well under way, investment fled the country and the business class, domestic and international, raised vocal opposition to regime policies. The U.S. also became a strident critic of the Allende government.

The American government became increasingly convinced that the Allende regime, albeit democratically elected, was the forerunner of a Cuban-styled takeover of a South American country.

Economics dominated the forces for change operating in the Chilean political system between 1970-1973. However, it is important to note that it was dominant but not alone: varying combinations of economic as well as political forces contributed to the totality of Chile's disintegration as 1973 ground on. Political parties once again played a role in competing for power and/or influence within government as well as increasingly (for those not part of PU) taking positions in opposition to the regime. This alignment system resulted in yet another manifestation of force for change that differs across time but was no unique: Chile's system of coalition and compromise was, like the economy, breaking down. Politics was made a zero-sum game; there were ever-decreasing reasons to seek accommodation with the government. Allende's policies had polarized Chile. The combined dominance of Allende personally, and of the Executive over the other branches of government worked to neutralize political processes. Thus, Chile's democratic tradition itself became a force for change in that it facilitated and aggravated a crisis environment. (Valenzuela 1978).

C. PINOCHET'S CHILE: ECONOMICS & POLITICS

Allende attempted to ignore economic reality: in his program the public sector spent more and earned less-a system guaranteed to fail. An example:

In 1973 Chileans were subject to the world's highest rate of inflation and shortages of basic goods reminiscent of a country in the last stages of a military defeat. (Falcoff 1989, 69).

The image is both accurate and disturbing. The failure of Allende's populist-socialist model was as much the result of the failure of his political strategies which had attempted to make the economy an instrument of political power rather than a distinct phenomenon which demanded consistent, committed support rather than mere manipulation. Paul N. Rosenstein-Rodan has summarized the Allende experience as follows:

Salvador Allende died not because he was a socialist, but because he was an incompetent...[] by August 1973 Allende's power was gone. My estimate is that had a plebiscite been held then, at least 60 percent would have voted for a new government. The people almost wished for a military coup. (Rosenstein-Rodan 1974, 7, 12).

It is important to realize that the break from constitutional government in Chile was the political consequence of a failed economic model as well as a contest for political power.

Allende's strategy had targeted the lower socioeconomic classes as recipients of the government-directed redistribution of wealth. As Mark Falcoff notes in *Modern Chile 1970-1989*, manipulation of a dominant Public Sector was utilized to systematically divest both the domestic and international capitalists of their wealth so as to transfer it to a politically cohesive but economically uncompetitive popular sector. When there were no more resources available for transfer to favored constituencies they, and not the capitalists who had either insulated themselves economically or removed their capital from the country, were most

negatively impacted by the ensuing economic constriction. The very socioeconomic class Allende had intended to utilize as his power base for transforming an entire nation's political and ideological identity were the first and most severely affected by the failure of his economic strategies. From out of this prolonged economic suffering was born the popular opposition to Allende's regime that made its overthrow possible, if not in fact inevitable. When the Chilean military overthrew Salvador Allende it was in large measure a response to the economic disintegration which had been accelerating throughout the period of Popular Unity government. The very socioeconomic classes upon which PU had built its identity and staked its survival were some of the worst hit by the economic collapse brought about by Allende's policies.

Once in power the military, and General Pinochet particularly, initiated a restructuring of society that can only be classified as revolutionary in scope. Revolutionary violence sprang forth from and was committed in the name of economic theory become ideology. Chilean society was to be set on a new and unique course: societal relations and political power were defined by and subordinated to pursuit of a free market economic model. The Pinochet government thus determined to affect a fundamental reshaping of society through creation of an entirely new set of economic relationship patterns. The revolutionary nature of this phenomenon is clearly evident not only in the radicalization of the military institution but in the use of the chosen economic model as the means by which the state would carry out its political agenda; which included destroying the political left in Chile. Of the government's initial

approach to economics and politics as distinct but nevertheless related phenomena, Whitehead has noted:

Perhaps more importantly, it was protected domestic industry that had provided the main organizational strongholds for Chilean Marxism. [Under the Allende economic model, the state rather than the market place was the source of wealth distribution.] By removing protection, eliminating subsidies, dismantling the public sector, and subjecting these activities to the full blast of international competition, the Chilean regime would not only eliminate economic inefficiencies, it would also eradicate the social bases for political resistance. (Whitehead 1985, 23).

The economy became both an end unto itself and the vehicle for reshaping societal relationships in Chile. The breadth and depth of changes committed by the Pinochet government must be acknowledged as constituting a revolution that affected citizens and systems alike in a manner and to a degree never before experienced.

D. 1973-1984: PATHS TAKEN & COURSES HELD

Recalling the assertion that the military's entry into politics was predicated upon a response to Allende's populist-socialist economic policies, the Pinochet agenda based itself on the need to counter the former regime's economic theories and their political manifestations. The Pinochet government initially manipulated economic policies so as to consolidate itself in power and, equally as important, eliminate opposing economic and ideological blocs. Gordon Richards offers an insight into the sweep and intensity of these initiatives:

Moreover, the creation of high unemployment and the annihilation of heavily unionized industrial sectors have been identified as integral components of the

regime's political strategy of destroying the urban labor movement that formed the basis for the left's electoral support. (Richards 1986, 470).

The Pinochet government's approach to national economic reconstruction must rank as one of the most sweeping economic-political programs carried out in the contemporary history of Latin America.

From the beginning, the Pinochet regime acknowledged the supremacy of the economic agenda in establishing its priorities. Based on the monetarist economic theories of Milton Friedman as taught at the University of Chicago, this model would become the ideological force through and by which Pinochet drove Chile. Monetarism as taught at the University of Chicago is generally acknowledged to constitute more than an academic pursuit, taking on the aura of economic dogma among its proponents. This "dogma" was adopted and adapted by the Pinochet regime in what can be viewed as a militant, revolutionary commitment to and application of free market capitalism as the foundation for economic, political and cultural relationships. The Chicago Boys undertook the radical restructuring of Chile's economy and through this program imposed fundamental alterations to societal relationship patterns upon the nation. The regime opened its assault on the Allende economy by drastically lowering tariffs, withdrawing government from the business sector, and generally opening the Chilean economy to competition in the international market place. The program initiated by the Chicago Boys involved "shocking" the economy into international competitiveness. The Economic Recovery Program was announced on 24 April 1975 and, like the country of its development and application, was a unique manifestation of economic theory become national reality. Government expenditure was cut by 27% in 1975, and capital investment fell by 50%; the regime achieved a balance of

payments surplus and precluded outside intervention in the economy by the first quarter of 1976. (Latin American Bureau 1983, 63). The "shock" treatment lasted just over a year, ending on 29 June 1976. The program entailed high social costs but it served to consolidate the regime's militant economics and the dominance of the Chicago Boys over these policies.

'Shock' provided occasion for reinforcing both Pinochet's personal authority as president, and the political position of the Chicago Boys as his preferred advisers. (Latin American Bureau 1983, 59).

Once again a particularly political application of economics is cited as central to the Pinochet agenda. While the economy grew from 1975 onward, it failed to develop; lacking the infrastructure necessary to achieve true self-sufficiency. The government continued its withdrawal from the private sector and by 1980 all but 15 of the 507 state enterprises established during Allende's regime had been privatized. State controls over banking were withdrawn as a further incentive to private investment in the economy. From 1980 through 1982 Chilean banks borrowed heavily in the international market and growth of the private financial sector was mistaken for economic development. In 1980 Chile's "Dance of the Millions" began, resulting at its peak in a borrowing rate of \$3 million per day; increasing the foreign debt to \$10.37 billion of which 85% was in the form of bank to bank loans. When worldwide recession dried up the source of loans from private banks, Chile, like most Latin American economies, faced severe contraction and, due to the overwhelming proportion of debt in the private sector, a financial collapse.

Rather than shift policies in an attempt to lessen the social costs of the economic crisis, Pinochet imposed stringent monetarist prescriptions on the economy. The state re-entered banking, buying up the debts of the largest private banks, consolidating other smaller institutions and generally realigning the private financial sector in accordance with the government's dictates. Privatization of the economy was still the goal but when the private sector committed potentially disastrous errors the state stepped in to set the economy on its ordered course. There should have been no expectation that the government would not concern itself with and be involved in the economy. Chile was being directed toward a new economic and political reality and the government claimed the leadership role in this movement. What was different about government interaction with the economy was the direction of such interaction not the fact of its existence. Indicative of the efficiency but also of the social costs of the adjustments is the fact that the nation achieved a 15% reduction in national consumption by 1985 as compared to 1970 rates. However, by 1985 the 20% of population comprising the Upper Income bracket consumed 30% more than in 1970; the 40% of population that made up the Poor Income bracket consumed 50% less than in 1970. (Timmerman 1987, 53). The monetarist policies of the Chicago Boys as practiced by the Pinochet government made economic liberty (national and private) more important than political liberty. Pinochet's economic policies served also to identify the middle and upper classes as the priority recipients of the initial benefits of the free market economic model. Those individuals (and classes) best able to take advantage of the opportunities inherent in a free market economy were not only encouraged to avail themselves of its rewards but, in the sense of

building and strengthening a national economic system, such a condition was nothing less than critically important. The economic isolation of the masses (lower socioeconomic classes) was actively pursued by the Chilean government as a prerequisite to economic stability and a political necessity.

The economic effects on the lower classes has been shown to be central to the government's intention to neutralize the opposition. Despite claims to be prosecuting the Marxist-socialist left wing in defense of democracy, the Pinochet government nonetheless displayed a classic Latin American right wing orientation in its national agenda.

Like the Hispanic monistic conservatives, he (Pinochet) believes in political hierarchy, not political equality...The nationalists, Christians, and private property holders are the favored people. Disfavored groups include the international communists, the atheists, and the poor. (Andrain 1988, 184).

Once again the image of a society revolutionized with all its attendant possibilities as well as its consequences is clearly in evidence when examining (even in general terms as done here) the actions undertaken by the Pinochet government upon coming to power.

E. 1985-1990: MILITANT CAPITALISM & NATIONAL MODELS

The Chilean economic model faced and overcame several severe challenges between its inception and the commencement of its upswing/marked growth which dates from 1985. Specifically, the classic boom-bust phenomenon threatened to undermine the credibility of Pinochet's free market strategies. This was particularly evident in the economy's reaction to the OPEC oil price shocks of the 70s and the world recession of 1980. Chile faced severe economic threats to the

viability of its economic model during these periods yet to its credit and, as will be shown, Chile's advantage, the Pinochet government refused to abandon its economic model in pursuit of political expediency. Again it should be noted that it was the government's commitment to a free market economy that in large measure contributed to the nation emerging from these crises with both the government, economy, and societal relationship systems intact. The success of the economic model, particularly in the wake of the 1980-1982 recession, was a clear indication of the primacy of economics in shaping government priorities.

The current phase of Chilean economic performance dates from 1985 and can be characterized as a period of recovery-stability-growth. Despite being isolated politically, the Pinochet government continued throughout the mid-1980s to improve Chile's economic viability and the nation's stature in the international economic sphere. As Mark Falcoff has observed:

Nonetheless, a combination of free market incentives, careful management, and a neutering of the labor movement created a mood of business confidence unknown [in Chile] since before the First World War. By 1986 the rate of inflation had been pushed down to 19.5 percent; Chile's creditworthiness was without parallel in Latin America, and indeed within the developing world.... (Falcoff 1989, 300).

Two elements which distinguish themselves include the necessity to note that economic recovery and growth were paramount priorities for the Pinochet government but this success was achieved at a cost of political freedom which was profoundly significant. This dichotomy between developing free market capitalism and restricted political prerogatives points yet again to the primacy of economics in setting the national agenda throughout the Pinochet years. As will be examined in more detail subsequently, the success of the economic model will be

shown to be the guarantor of Chile's political future and prerequisite for the return to democratic governance. After a false start in 1984 the Chilean economy has steadily improved; reflecting the need to make necessary modifications but not distort the workings of the export-oriented economy as the source of growth. In spite of the set-backs associated with the recessionary period, the Pinochet government recognized the efficacy of its basic economic model which had yielded expansion then growth in economic performance during the 1975-1979 period. The World Bank has noted that Chile's trade surplus almost quadrupled between 1984 and 1986. Further, the state increased its critically important foreign reserves by more than \$100 million. A current account deficit of \$5 billion in 1981 was reduced to \$1.1 billion by 1986. (World Bank 1987). These indices of economic vitality and fiscal effectiveness must however be accompanied by an acknowledgement of their undeniable importance not only for Chile but for Latin America as proof of the possibility of successful economic performance and an example of its execution.

F. FREE MARKET METHODOLOGY

An important distinction to be made when examining Chile's economic performance, particularly since 1985, is that the government is involved in but works diligently to avoid distorting the economy through unnecessary or excessive intervention either as an end unto itself or in pursuit of a more narrowly defined political agenda. The Chilean government was constituted as a military regime and yet it committed itself and thus Chile to an economic model the hallmark of which is the individual-oriented world view fostered by capitalism. In speaking of the government's role in a free society, economist Milton Friedman noted in 1962:

Fundamentally, there are only two ways of co-ordinating the economic activities of millions. One is central direction involving the use of coercion-the technique of the army and the modern totalitarian state. The other is voluntary cooperation of individuals-the technique of the market place. (Friedman 1962, 13).

In its pursuit of a free market model the Pinochet government can once more be seen to have set itself in a revolutionary stance since although politically identifiable as Friedman's "modern totalitarian state", it nevertheless kept faith with and nurtured "the technique of the market place" as its economic organizing principle. Herein is an indication of not only the unique character of the Pinochet government but its achievement in creating a separation between economic and political power. By precluding the option of contesting political power the government was able to compel society to concentrate its attention on and commit its energies to the free market economy. This accomplishment; this distinction between the economy and politics will be shown to be crucial to the further development of each.

As stated earlier the Pinochet government involved itself in the workings of the economy as its co-ordinating authority rather than its master. An excellent example of this phenomenon is the government's involvement with Chile's banking industry and the related issue of the resultant foreign debt. True to its declared identity, the military government opened Chile's financial markets to the private sector and to foreign investment subsequent to taking power in 1973. In the mid-70s international banks, flush with OPEC dollars, encouraged private borrowing in Chile. Money flowed into Chile but little productive use was made of the capital resources accruing to the major banks and consortia. In the wake of a

world recession in 1980, new money was no longer available and Chile-as a nation - was threatened by the existence of an excessive unsecured private sector debt load. The expansion of 1975 through 1979 could no longer be financed with foreign loans. Nationally, private sector debt service requirements increased and this pressure was exacerbated by a drop in demand for export products. Indicative of the severity of the situation is the fact that:

...by the end of 1981 the private sector was responsible for 65 percent of the total debt versus 35 percent by the public sector. (Griffith-Jones 1988, 129).

By 1983 this trend would be reversed, due in large part to the government's actions with respect to renegotiating Chile's private sector debt as part of rather than distinct from the nation's debt. In January 1983 the government either took control of or liquidated a number of banks and financial institutions facing insolvency. Again, the markedly improved creditworthiness of the Chilean government enabled it to involve itself with the private sector so as to resolve the crisis in a manner acceptable to both creditors and the Chilean debtors, but also one that would permit the financial system and the economy to continue to operate. Only the state could offer the guarantees needed to draw finance back into Chile. Faced with both the domestic and international consequences of this unique debt distribution phenomenon the state committed itself to involvement in its resolution not to manipulate an economic issue for mere partisan political purposes, but as the only means by which the Chilean economy could be coordinated in the wake of what was a private sector-created crisis. Thus, the Pinochet government made the debt issue and its resolution a national rather than

sectoral responsibility. In this respect, albeit one facilitated by its ability to involve itself in the private sector, the Pinochet government used its power neither to coerce nor to manipulate the economy, but to rescue it. The effort was directed to salvaging rather than plundering the private sector. Economist Antonio Schneider of the New School for Social Research, in New York, summarized the bank intervention-debt renegotiation initiative in the following terms:

Although this move was widely resisted, the regime has until now had the political ability to make all Chileans pay for the debts the proceeds of which were enjoyed by only a few in developing their expansionary schemes. (Nell 1984, 225).

The preceding observation is technically correct but misses the full import of the government's actions by focusing on the perceived "political ability" (implying coercion?) to impose its answer on the nation as a whole to resolve a crisis brought on by a particular sector. Again, while this is certainly true one must look beyond the tendency to assign blame; to the accomplishment by the Pinochet government of making the economy's crises as well as its fruits the concern of all Chileans. In forcing the nation into the debt renegotiation arena the government destroyed the illusion that any sector could function in isolation, disregarding its responsibility for the consequences of its operations. The issue was not one of intervention nor imposition, but one of the Pinochet government's fulfilling its responsibility to, as Friedman pointed out, take the lead in co-ordinating national interaction with the free market system which had made the private sector's indebtedness possible. To indict the government or its economic model for this activity is to miss the critically important facts of the government having done no more for no longer

than was necessary to stabilize the system and thus the national economy.

According to the World Bank:

Following the December 1985 legal settlement of the affairs of Chile's largest intervened groups, sale of their productive firms proceeded at a rapid pace. As of December 1986, over 90 percent of their productive assets had been sold to private investors...By December 1986, the capital of the two major intervened banks (Banco de Chile and Banco de Santiago) had been placed with over 25,000 shareholders. The repatriatization of the other banks also proceeded satisfactorily. By late 1986, only 8 percent of their shares remained on the Central Bank's books. (World Bank 1987, 17).

Overall, the Chilean government's performance in the banking-debt crisis must be evaluated as timely and effective. To indict the government for involving itself in a crisis of national proportions and import is to indulge in condemning the resolve to maintain a viable market economy; because it was the actions of the Pinochet government which succeeded in resolving the issue and initiating corrective measures rather than merely settling for compounding the crisis through either inaction or the incorrect action of attempting to patch over the crisis with additional money. By comparison the U.S. government, and thus the American people have undertaken salvaging the U.S. Savings and Loan industry; a private sector-based crisis which has been made a national priority because, as in Chile, regardless of how the crisis developed it exists, and it affects many more citizens than those few identified as principal actors. In the American S&L crisis, as in the Chilean bank-debt crisis, only the government is able to co-ordinate efforts to resolve the matter without imposing costs on the population so extreme as to be unacceptable. The act of direct government involvement in the economy is the only viable approach to the issue.

The Pinochet government never broke faith with its commitment to the free market model it developed for Chile. Of the enterprises seized or nationalized by the Allende regime, 350 were returned to private ownership between 1973 and 1979. Between 1974-1983, 92 state enterprises were sold to private investors and another 49 liquidated. As of October 1986, only 21 companies remained completely state-owned. (World Bank 1987, 19). The privatization status of remaining state enterprises is presented here.

FIGURE 10. PRIVATIZED STATE ENTERPRISES AS OF 1986

	% Privatized		Amt Collected (Pesos - millions)	
	Authorized	Sold	10/31/86	Owed
IANSA	49	14	254	570
CHILECTRA	49	35	2,248	899
SOQUIMICH	65	48	7,030	3,600
CHILMETRO	65	55	4,090	1,400
Nat'l Chem. Co.	65	62	1,075	98
ENTEL	30	30	3,727	--
Laboraties of Chile	49	19	206	400
CTC	51	11	479	1,742
CAP	80	49		
Telex	100	100	1,441	--
ENAEEX	100	--	--	1,700
ECOM	100	100	20	--
Melpilla Elec. Co.	100	100	800	--
Coquimbo Elec. Co.	100	100	609	--

Source: CORFO, World Bank.

G. FREE MARKET MATURITY

A central argument in this examination of the Chilean economic model is the assertion that it constitutes a revolutionary reconstruction of economic relationships. Not only in terms of redefined societal relationship patterns is this the case, but in the mechanisms brought to bear in co-ordinating the economy as well. The important and successful bank-debt renegotiations and privatization initiatives have already been referred to. The foreign debt, although renegotiated, remained. By becoming guarantor of this debt, the government made it a national priority. By 1986 public and government-guaranteed debt accounted for over 75% of Chile's debt. (Griffith-Jones 1988, 129). The amount of foreign debt guaranteed by the government increased but so too did the innovative strategies devised to help meet this new obligation. Fundamentally, Chile worked with the international system rather than outside or against it. Under Pinochet, Chile developed creative debt conversion and debt-for-equity programs whereby the nation, not a particular sector, met its financial obligations while at the same time stimulating new investor interest in Chile and generally achieving an excellent credit rating. The debt conversion strategy was thus able to exert a moderating influence on the increase of Chile's external debt. As noted by Shirley Christian, for example:

Debt-equity swaps have brought investors to Chile from around the world. Participating companies have included Citicorp; Royal Dutch/Shell; Fletcher Challenge Ltd.; a New Zealand conglomerate; Carter, Holt, Harvey, also of New Zealand, and Ansett Transport Industries, operator of Australia's largest domestic airline. (*The New York Times* 18 Jul 1988).

While many other states have since copied its success, it is to the Pinochet government that credit must be given for breaking the national debt issue out of a zero-sum paradigm and into a system marked by ongoing, progressive actions that keep Chile a highly valuable investment market while at the same time reducing the risk of economic crisis/collapse under an unsustainable debt burden. Once more the Pinochet government's economic policies can be seen to have fostered a revolutionary approach to Chile's indebtedness, but even more to have effected a fundamental change in Chile's identity, not only in the international economic sphere but among Chileans themselves. Briefly, Chile's debt conversion strategies, combined with its ever-strengthening domestic economy contributed significantly to the nation's increasing ability to control its own economic destiny. In 1988, Chile redeemed \$299 million of its bank debt and bought back another \$139.8 million in November 1989. The nation had been ready to buy back as much as \$550 million of its debt had the banks been willing to sell it. (*Latin American Regional Reports* 21 Dec 1989). What Chile has accomplished speaks for itself. The desire of its creditors to hold their debts in anticipation of full repayment says even more.

The point must be made that Chile's debt burden is nonetheless severe and will require a continuing program of austerity combined with new capital inflows for the nation to balance debt service and continued growth. Both elements are however in place and operative in Chile today. The Pinochet government's austerity measures have enabled the nation to meet its international obligations and address national priorities. This "economics first" strategy, while fiscally responsible has likewise been socially costly. However, it has nevertheless created

an environment conducive to increasing foreign investment in and strengthening of the domestic economy; conditions enabling Chile, not just General Pinochet, to keep the initiative in the international financial arena.

H. GROWTH & DIVERSIFICATION

Gaining and keeping control of the nation's economic destiny is a goal shared by leaders in all Latin American states, but achieved by very few in the contemporary era. Chile can be understood to be further along in its pursuit of this form of independence than the majority of its neighbors, regardless of their political orientation. Chile has, during the Pinochet tenure, diversified and developed new industries and infrastructure so as to break the traditional identity with and subordination to a single raw material export (copper) as the sole source of economic viability. Briefly, both the nation's enhanced attractiveness as an investment site as well as continuing growth of domestic enterprises work to strengthen not only aggregate economic factors, but exert a profound influence on the Chilean people. The population is increasingly integrated into the free market economy; drawing from them their commitment to not only its preservation but its growth.

Chief among the sectors either developed or diversified in the Chilean economy, mining remains paramount but is today no longer overwhelmingly dominant as the source of national wealth. Other elements contributing to the efficiency and efficacy of the Chilean economic model now include: farming, agriculture, wood products, fishing, and manufacturing. A partial listing of Chilean trade percentages for the period 1984-1986 demonstrates the recovery and increasing diversity in the export sector as well as its developing balance.

TABLE 11. CHILEAN TRADE 1984-1986 (%TOTAL)

Export	1984	1985	1986
Copper	43.9	47.0	41.8
Agriculture Products	11.7	13.5	16.3
Wood Products	3.2	2.9	3.2
Manufactured Goods	31.3	27.8	30.7

Source: World Bank

TABLE 12. GDP GROWTH 1984-1986 (% CHANGE)

	1984	1985	1986
Agriculture & Fishing	7.6	5.6	8.8
Manufacturing	9.8	1.2	8.0
Mining	4.4	2.2	1.4
Trade	5.0	1.7	5.5
Fixed Investment	9.0	14.8	7.1

Source: World Bank

The preceding data points to the positive direction in which the Chilean economy has grown. This perception must however be balanced by an acknowledgment of the fact that an economic model's development does not translate directly into an economy that is not fragile. Some interesting aspects of the data previously cited include an indication of Chile's gradual lessening of its dependence on the copper industry as the sole determinant of the economy's fate. Diversification has worked to stabilize and strengthen overall economic

conditions, and the increase in other export areas with a simultaneous decrease in copper's share of the national aggregate, points to the Chilean model's ability to insulate the nation from the fluctuations historically associated with copper in world markets. As can clearly be seen in examining the relative contribution of the various sectors to GDP, mining is the least changed element while agriculture and fishing, as well as manufacturing, have demonstrated marked increases in their contributions to GDP growth. Their value to the nation as a stable source of wealth; capable of expansion is correspondingly increased. Speaking about the dramatic (revolutionary?) diversification of the Chilean economy, the *Financial Times* observed:

In less than 15 years the number of export companies has swelled from barely 200 to 2800, exporting items inconceivable only a decade ago: from toys, computer software and defence equipment to exotic fruits. (*Financial Times* 5 Jul 1988).

The areas commented on certainly offer a spectrum of economic enterprises as well as operating on different levels of complexity and sophistication. This points to an economy that is modernizing, capable of competing in world markets; not forced to limit itself to protected domestic/regional markets. Yet another example of the dramatic success of Chile's economic diversification as indicative of its increasing economic maturity is the fishing industry. Developed in conjunction with the recovery-growth period dating from 1985, Chile became the hemisphere's leading exporter of Pacific salmon in 1989. This industry, developed under a free market model, has provided yet another source of wealth wherein Chileans are increasingly in control of their own financial destinies as a result of their initiative rather than a consequence of markets not of their making. In speaking about the

phenomenon of Chile's fishing industry as an affirmation of the Pinochet government's economic model, David Asman, in a story on the fishing industry in southern Chile, noted:

Industry in the area [vicinity of Puerto Montt, S. Chile] is booming, thanks to an inflow of foreign and repatriated domestic capital, lured back to Chile because of the government's commitment to sound economic policies. (*The Wall Street Journal* 17 Nov 1989).

Diversification and growth; not only of productivity but of Chile's standing in the international economic arena are testimony to the gains realized from the government's commitment to the free market economy and its ability to move from imposing it on Chile to its being accepted and adopted by Chileans.

1. NEW DIRECTIONS

A key issue associated with the phenomenon of Chile's economic growth is that of the social costs of its imposition and operation. The lower socioeconomic classes have in many respects paid for the success of the nation's economy without realizing an increased share of its benefits. In this respect the Pinochet government's economic model can be seen to possess a revolutionary aspect in that contrary to the tendency in the majority of Latin states, the Chilean economic model was not based on a populist appeal to the lower socioeconomic classes as the source of its support and authority. Rather, in Chile the economic model was first addressed to the middle and upper classes as the blocs from which the government sought to develop support for its programs. In this sense Chile's economic model represents a revolution from above. As Jonathan Kandell has said:

While the country's output of goods and services has grown 5% annually since 1984-a performance unmatched elsewhere in Latin America-and unemployment has fallen from a staggering 30% in 1982 to below 8% this year, [1989] the boom has been skewed in favor of the more affluent. (*The Wall Street Journal* 7 Jul 1989).

With the upper socioeconomic classes committed to the free market model, the Chilean government secured the capital resources and expertise to make the model viable. The government did not, however, build the economy at the expense of the lower socioeconomic classes survival but through subordinating their economic advantage in the short and middle term to the prospects of a solid, working economy capable of producing the wealth for more equitable distribution in the long term. Data contained in the University of Chile report cited below is the first of its kind available for Pinochet's Chile. Future studies will be necessary to further evaluate government performance in providing social services as well as for tracking the increased distribution of national wealth among the lower socioeconomic classes. However, an important benchmark has been established against which long-term performance in this critical area can be assessed. Once again, the Pinochet government co-ordinated the social aspects of the economy rather than opt for a populist "buy out" of the lower classes for the purpose of political advantage. As the World Bank has noted:

In essence the Government attempted to improve the efficiency and targeting of some of its major social programs so as to redirect extremely scarce fiscal resources towards the unemployed and continue an innovative social security reform. To a great extent this effort was successful; not only did scholastic ratios drop only slightly, key health indices continued to improve. (World Bank 1987, 20).

Again it is not a matter of viewing the Chilean economy as a zero-sum game but as a co-ordinated national phenomenon that distinguishes its performance. The commitment to the maintenance if not the advancement of the lower socioeconomic classes by the Pinochet government is clearly demonstrated in the data presented by the University of Chile in its 1986 report.

TABLE 13. SOCIAL PROGRAMS-1985 (% NATIONAL TOTAL)

	Share Recv'd Lowest 40% of Population	Share Recv'd Highest 20% of Population
Cash Subsidies		
Emergency Employment Programs	81.4	1.3
Unemployment Insurance	71.0	8.0
Unique Family Subsidy	77.0	3.0
Family Allowance	42.0	17.0
Social Security Pensions	13.4	32.0
Noncash Programs		
Basic Education	59.0	9.0
Secondary Education	49.4	12.2
Higher Education a	17.0	52.0
School Lunch Program	72.0	5.0
Health & Nutrition	63.7	5.2
Housing	52.0	11.4
Total Social Outlays	40.0	26.4
(Total minus Social Security Pensions)	56.6	12.9

- a. University fees excluded = exaggerates skewness of University subsidy incidence. Source: "Impacto Redistributivo del Gasto Social". Univ. of Chile, 1986.
(WorldBank1987,22)

J. 1990: NEW BEGINNINGS

As noted earlier Milton Friedman spoke about the ability of competitive capitalism to promote political freedom. It is not necessarily the case that reversing the equation produces a similar result. The Friedman statement captures the essence of the Chilean economic model's orientation as well as its greatest success. The Pinochet government made economics distinct and to a large degree insulated from politics, and in so doing nurtured one as prerequisite of the other. In placing the economy above political processes the government created the conditions in which the individual, be it understood as a citizen or an enterprise, is superior in the economic arena not because of prestige or prerogative, but because of the infinite possibilities and unlimited potential that make up a free market economy. After achieving individual power in the economic arena the citizen, firm, group, and ultimately the nation, cannot accept other than a continuation of the phenomenon in the political sphere. It is upon the success of Chile's economic model that this new reality was built and is being realized. As noted in the Financial Times:

The Chilean free market is out performing all other Latin American economies and is close to breaking through the barrier of underdevelopment, attracting unprecedented foreign investment amid plaudits from bankers and businessmen. (*Financial Times* 5 Jul 1988).

A survey of economic indicators will demonstrate both the strength of Chile's economy and, in comparison to Peru and Argentina, clearly establish the basis for the Chilean population's commitment to it and their demand that the Alywin government continue the Pinochet-developed free market system.

TABLE 14. INFLATION (% / YR)

	1985	1986	1987	1988	1989
Chile	30.7	19.7	19.9	12.7	21.4
Argentina	358.4	81.9	174.8	387.5	3731.0
Peru	158.3	62.9	114.5	1722.6	2948.8

Source: ECLAC (*Latin American Regional Reports* 1, 8 February 1990).

TABLE 15. ECONOMIC GROWTH (GDP % CHANGE / YR)

	1985	1986	1987	1988	1989
Chile	2.4	5.3	5.4	7.1	8.5
Argentina	-4.6	5.8	1.8	-3.2	-5.5
Peru	2.3	9.0	7.3	-8.6	-10.0

Source: ECLAC (*Latin American Regional Reports* 1, 8 February 1990).

TABLE 16. DEBT SERVICE (% EXPORTS)

	1985	1986	1987	1988	1989
Chile	43.5	37.9	26.4	21.8	19.1
Argentina	51.1	51.0	50.9	42.4	53.1
Peru	34.0	33.0	38.2	43.3	36.8

Source: ECLAC (*Latin American Regional Reports* 1, 8 February 1990).

It is as a result of demonstrated performance that the Chilean government's economic model became the Chilean nation's economic model. The full measure of this economy's dynamism and its translation into other aspects of national life is captured in a summary of Chile's economic viability as possibly the greatest legacy of the Pinochet government:

Today Chile's exports are booming, the foreign debt is shrinking, most state companies have been sold off, banks notch up record profits. Unemployment is falling fast. Welfare payments are targeted to those who need them most. In a country the price of whose main hard-currency earner, copper, crashed through the floor, GDP per head nonetheless rose slightly this decade; practically everywhere else in Latin America it declined drastically. (*The Economist* 4 Nov 1989).

This element of popular support for and commitment to the free market economy has proven to be a unifying principle upon which both economic and political relationships are built. As was subsequently the case in the presidential elections of December 1989, the economic freedom won in the market economy did translate itself into the ability to shape the political sphere as well. General Pinochet was voted out in favor of a civilian president, but the mandate included the clear order to continue Chile's free market model. In a prophetic statement with as yet unfolding features in both the economic and political spheres, *The Wall Street Journal* noted earlier in that election year:

Subject to a continuation of current economic policies, Chile is set to achieve Southeast Asian rates of growth and thus become the first modern Latin American success story. (*The Wall Street Journal* 10 Mar 1989).

Demonstrated superior performance combined with unlimited potential have become the trademark of the Chilean economic model.

K. CONCLUSIONS & CONSIDERATIONS

It is clear that Chile's economy is working. Equally clear is the commitment required of both government and the polity to continue the growth of this force for positive change but to channel its benefits to a broader segment of the population. The economy, in Chile and throughout Latin America, must be a tool for addressing societal needs and not merely an instrument of partisan political reward. This will be a primary challenge for the Aylwin administration: to direct increased economic benefits to Chile's working and lower socio-economic classes. Recalling that these blocs are the traditional power base of the left, it will be necessary for Aylwin to achieve a national consensus to include these sectors in the rewards of Chile's economic recovery in order for the new government to move beyond the legacy of political punishment and economic disadvantage imposed on the left by Pinochet.

Patricio Aylwin has inherited an economy in steady growth—a force capable of effecting change throughout the Chilean socio-political environment by making cooperation and mutual advantage both possible and compelling. The contradiction inherent in a military usurpation of political power resulting in creation of a new and successful economic-political model is a force for change that can help or hurt democratization in Chile depending upon how it is interpreted and channelled. The question Chileans confront centers on whether, as a society, they believe the changes which have manifested themselves throughout both the economic and political systems would have been possible without what amounts to

the revolutionary fracturing of political culture by the Pinochet regime. Given the case of Peru and Argentina, it cannot be concluded that merely returning to democratic processes is sufficient to create an environment wherein the dual priorities (and dual realities) of economic growth and political freedom are mutually supportive rather than mutually exclusive. Chileans appear to have made the commitment to achieving political democratization along with rather than at the expense of economic growth. Issues of how this enviable position was attained, as opposed to how it might be distorted, is the dilemma of Latin American politics and the challenge of Chile's options. As the election which brought the Aylwin presidency approached, a Chilean voter captured the essence of the dilemma-challenge confronting the nation:

Under Pinochet, the economists ruined the legal system. Let's hope that this lawyer [Aylwin] does not wreck the economy. (*The Economist* 4 Nov 1989, 53).

IV. PERU'S POLITICS

A. FOUNDATIONS & BASES

On 28 July 1985 Peruvian history was made when Alan Garcia Perez assumed the presidency from Fernando Belaunde Terry; marking the first peaceful transition of power between democratically elected civilian presidents since the end of World War II. History also noted the identity of the new president: a member of Peru's American Popular Revolutionary Alliance (APRA) party. The democratic mechanism had been revived in the Peruvian political system and more, the nation appeared directed toward a new national consensus as the foundation for presidential authority and governmental support. However, beyond the readily apparent manifestations of democratic processes lay the facts of personality and political power that combined to catapult Peru's president to the forefront of Latin, U.S., and world attention with both his personal charisma and his unflinching attack on the political and economic relationship system of which his nation was both participant and, according to him, victim. From the moment of his inauguration speech in 1985 through the waning months of his mandate in 1990, Alan Garcia has set his nation on a costly course in the international political arena.

This chapter focuses on the five year performance of President Alan Garcia. The subordination of the national economy to a politically-derived economic model will be shown to underlie Peru's collapsing socioeconomic and cultural systems.

B. FROM THE PAST

Peru has a long history of both military involvement in politics and an authoritarian tradition reflected in a dominant Executive branch, whether military or civilian. A summary of military and civilian governments in Peru will demonstrate the almost-cyclical nature of regime change which the nation has experienced.

FIGURE 17. PERUVIAN PRESIDENTS & LEADERS

Bustamante	1945-1948
Gen. Odira	1948-1956
Prado	1956-1962
Military Junta	1962-1963
Belaunde	1963-1968
Gen. Velasco	1968-1975
Gen. Bermudez	1975-1980
Belaunde	1980-1985
Garcia	1985-1990

C. ALAN GARCIA: THE NEW OLD WAYS

When he assumed the presidency, Alan Garcia was both witness to and instrument of history. The collapse of the Peruvian economy in 1983, along with the resulting rejection of President Belaunde and the AP party, insured another shift in the Peruvian political system was at hand. The domination the IU and APRA achieved in the 1983 municipal elections was a clear indication of the direction the electorate was shifting toward. The nation was again favoring an

orientation to the left and the only question not readily answerable was whether the Marxist IU or center-left APRA would provide the next president. Historically suppressed by the Peruvian military, APRA, founded in 1924 by Victor Haya de la Torre "...as a Peruvian and Latin American version of a Marxist party" (Sanders 1984), was permitted to campaign in the 1984 elections. The reason, most basically stated, includes the fact that the military's failure as government was fresh in both its and the public's mind; the centrist policies of Belaunde were likewise a failure. APRA successfully presented itself as a Social-Democrat party, occupying the center-left in the political spectrum. With the nation looking left for political leadership, Alan Garcia and APRA represented the best prospect for achieving national consensus for broad-based policy initiatives that could turn Peru around.

APRA's party ideology, first articulated by de la Torre in the 20s and 30s included elements of anti-imperialism, Latin American unity, nationalization of the principal means of production, indigenous "liberation", and the eventual triumph of the oppressed masses. (Sanders 1984). While many of the economic implications of such an ideology might well constitute a threat to the capitalist/socioeconomic elite, the political components of nationalism and anti-imperialism were extremely appealing to the Peruvian electorate.

Alan Garcia represented the hope of the Peruvian people in 1984; hope that the democratic political process could produce a president capable of uniting and leading the nation. His election constituted a triumph for the electoral process as well as a mandate for Garcia to govern. The left (both APRA and IU) gained more

than 70% of the popular vote. Garcia himself won 48% of the vote, the largest plurality in Peruvian history. (Washington Office On Latin America 1987).

On 28 July 1985 Alan Garcia assumed the responsibilities as Peru's president. In his inauguration speech he announced the intention to assert his, and through him Peru's, control of its economic and political destiny according to his perceptions of national priorities rather than in accordance with the tenets of the international "system". The new President articulated his perception of the situation in an interview with Patricia Sethi, *Newsweek* U.N. Bureau Chief, in which he stated:

We want discussions on the reform of the monetary system and the distribution of world liquidity in a fair manner. Otherwise it is not to our advantage, nor are we interested in belonging to an agency [IMF] which benefits a single country. [U.S.] (*LASA Forum* 1986, 6).

Garcia placed himself squarely in opposition to both the economic and political power elites, international and domestic. The phenomenon of ambiguity in national leadership's approach to its international relationships was evident in Garcia's assertion of his authority to accept the responsibility of leadership yet assume the authority to dictate these relationships. Of Garcia Sethi noted:

...he has pitted himself against powerful forces: his military officers and security police, local drug barons, the IMF and international financial institutions as well as the superpowers. (*LASA Forum* 1986, 8).

The primacy of the president in the Peruvian political system is not only constitutionally mandated but popularly expected. It is upon the manifestations of this political phenomenon in the form of government policies that attention will

now focus. Both the international and national components will be examined so as to assess not only the uniqueness of Peruvian policy under Alan Garcia but also to demonstrate its consistency within Peruvian political history. The economics-politics link as a dominant feature of Garcia's policy formulation process will likewise be shown to be critical to assessing both the motivation for and intentions of government policies.

D. FIRST PRINCIPLES

Peruvian government policy is, of course, a manifestation of national perceptions and societal priorities. The two are inexorably linked in and through Peruvian consciousness and the president. The principal characteristics historically defining and driving Peru's foreign policy include: anti-imperialism, nationalism, international integration, and, particularly since 1985, non-aligned leadership. Additionally, debt, drugs and dependency (political as well as economic), and a violent counter-insurgency campaign influence the formulation and conduct of foreign and domestic policies in the Garcia government.

The first element to be examined is the link between the Garcia regime and previous governments &/or traditions. Although sharing the tradition of democratic electoral processes as the route to power, the Garcia government shares more ideological space with the military governments of the 1968-1980 "docenio" than with its civilian predecessor. The president's party ideology and subsequently demonstrated policy priorities are consistent with APRA's leftist orientation. Interestingly, and in spite of the historical animosity between the military and APRA, when Alan Garcia assumed power in 1985 he initiated a very active foreign policy as had General Velasco in 1968. Between these two periods,

Belaunde maintained a left/center-left policy identity but was not pro-active in the international arena, seeking to maintain the status quo so as to provide him the maneuverability and opportunity to address more pressing domestic issues. His failure to recognize the link, and therefore the requirement to address both international and national priorities, neutralized his ability to mobilize popular support for his domestic agenda. The link between the Garcia and military regimes is further supported by a summary of the military government's initiatives that could well be a description of those of the current civilian government:

During the years of military rule, the government had linked its internal policy to foreign policy, had sought greater autonomy vis-a-vis the United States, had favored relationships with the Non-Aligned Movement and with Third World and socialist countries, and had emphasized active participation in international organizations. (Costa 1987, 55).

The Peruvian military, as a politicized institution, was and remains a recognized political actor capable of assuming power, setting an agenda and pursuing policies in support thereof. More important however is the marked similarity between the military and Garcia's policy priorities. Such similarity argues that the Garcia administration is neither an aberration nor, in the person of Garcia, is the president unique in Peruvian experience. Rather, this comparison points to the validity of the earlier assertion that a hierarchy of values transcends a particular period of time or regime's ideological orientation.

In Alan Garcia one sees not so much a creator of bold new initiatives as a contemporary spokesman for, and even more so to, the Peruvian people. Politics, the quest for and exercise of power, is what drives Alan Garcia. Power itself must

be understood to include more elements of influence than of coercion although this is certainly available. It is in this fact, and in Garcia's grasp of it, that Peruvian policy, and not its divergence from tradition, has been construed to be the product and property of the president. Garcia is totally dominant over the formulation as well as the articulation and conduct of Peru's national and foreign policies. The notion of Garcia as a consummate politician is evident in the following assessment:

The fact is that Garcia has no strong ideological commitment one Latin American diplomat said. Ideology for him will always be subordinated to his ambition and sense of opportunity. Sometimes he likes to agitate simply so he can define the agenda and keep the initiative. (*The New York Times* 10 Nov 1987).

Recognizing the accuracy of such an observation, the case can be made that Peruvian policy must clearly be linked to the presidency. As the interpreter of national interests and the source of national policy, the presidency is particularly suited to a personality such as Garcia's. The international arena provides a very large stage upon which he can act and the domestic arena, at least in the first two years of his administration, provided the arena within which Garcia has validated his world view through the medium of popular support. As Raymond Bonner noted in 1988:

Alan Garcia wants to do more than just excite his countrymen; he wants to be more than just President of Peru. He would like to be the leader of the Nonaligned Movement, of which Peru is a member. (*The New Yorker* 4 Jan 1988, 50).

The "big stage" of the international arena must be understood as offering Garcia a critically important range of maneuver not otherwise possible. By

linking the international to the domestic, Garcia can effectively direct national attention and sentiment toward issues offering the assurance of a high degree of consensus. However, being in the international arena, these issues are, to a large extent, placed beyond the ability of domestic political actors to affect. Then-Minister of Foreign Affairs Alan Wagner has said:

Garcia's foreign policy is conceived as a cornerstone of overall government policy...The principal actors in the [foreign policy] decision-making process are the President and his Minister of Foreign Affairs. According to the Peruvian Constitution, the president represents the state and therefore bears [covets?] responsibility for the country's foreign relations. (Costa 1987, 57).

The president therefore accrues the benefits of defining an agenda wherein he alone is constitutionally authorized and politically enabled to act. This exclusivity deflects or neutralizes both the influence of domestic actors as well as his liability for the failure of the political system to foster multilateral cooperation. The president can take credit for national stability, economic growth, and international stature as all are credited to his personal efforts. Conversely, the president becomes the focal point for public resentment should there occur a policy failure in any of the above-mentioned areas. Such has been the experience of Garcia and Peru over the past five years. This is the zero-sum component inherent in presidential policy prerogatives and Peru's political system; the president accrues either credit or blame for the success or failure of the nation's economy and political processes. Such concentration can be seen to breed the environment demanding dominant personalities to fill the role as president. What is distinctive however is the fact that this environment is supported by the president as a means of maintaining his place at the center of national awareness rather than as a

means to lead the nation toward a different set of possibilities. The inability of this system to handle multiple crises results not in modification or correction of mechanisms, but in the rejection of the president and the scrapping of his economic-political model. From a conference on Peru sponsored by the Washington Office On Latin America and the Ecumenical Committee of the Andes, the following commentary emerged:

Radical changes are necessary, according to [Keynote speaker] Msgr. Alban Quinn, [Prelate of Sicuani, Cusco. Peru] because the socioeconomic and political models of Peru today [1987] cannot satisfy the needs of the majority of the population. (Washington Office On Latin America 1987, 5).

In the wake of presidential and regime replacement, national policies must be re-created by a new leader who must advance his plan for controlling the myriad factors comprising the domestic and international relationship systems. Alan Garcia has done no more than what was expected of him. For the first two years of his administration he accomplished his assignment beyond the expectations of either the electorate or the international community. Peru was the instrument of Garcia's power rather than he its representative. Policy, as government itself, was a means by which Garcia might achieve his personal priority of defining not only a national agenda but the nation's identity. To this end he

...reportedly began contemplating a constitutional amendment to permit his re-election in 1990. (*The New York Times* 10 Nov 1987).

Military-authoritarians had usurped power in 1968; Garcia, a "democratic-authoritarian" was at that point in his tenure apparently considering co-opting the

constitutional process (with his 76-90% approval rating), to legitimate his usurpation of power. Such was not to be the fate of either Garcia or Peru. As with his predecessors, the collapse of his economic model, and thus his government's ability to subsidize the standard of living for Peruvians, particularly those in the lower socioeconomic classes, accelerated his shrinking popular support. This consequence of failed presidential politics (which took the economy down with it) insured his departure from the presidency rather than, as has been speculated as his desire, Garcia having the political clout to push through a constitutional amendment to make him Peru's first president authorized to succeed himself.

E. THE ECONOMY: THE CORNERSTONE'S CORNERSTONE

When President Garcia announced that henceforth Peru would apply no more than 10% of its export earnings toward servicing its international debt it was the opening salvo in Garcia's five year battle against the international financial system. It likewise marked the onset of yet another economic model, conceived and articulated by the president and imposed on the nation. As has been argued, it was primarily in response to the failure of its economic models that the military and Belaunde regimes abrogated their claims to leadership as well as to power. It was incumbent upon Garcia to create a new model rather than attempt to modify an existing one. His government adopted a heterodox economic model oriented toward demand-led expansion as the precursor of growth. Subsequent to his inauguration Garcia's economic policies further demonstrated both the international-national link as well as the presence of a significant political component when, in a speech to the U.N. General Assembly he articulated the "Debt or Democracy" argument. In his 23 September 1985 speech Garcia asserted

that its international debt threatened the political stability and even the very existence of Peru, and that the whole of the Third World was in fact threatened by indebtedness to international financial entities. (Costa 1987). Along with the 10% limit placed on debt service, Garcia created a policy paradigm which once again linked the international to the domestic and in the case of the debt payment limit, was directed toward an international target: "the bankers", and so was highly popular domestically but clearly would be costly internationally. Peruvian economist Guillermo Hakim, participating in the 1987 conference on Peru stated:

In considering internal solutions to Peru's many problems, Peruvians themselves must develop and implement alternatives to the present system. However,...it is often easier to blame external, "imperialist" factors than confront problems at home. (Washington Office On Latin America 1987, 11).

Several elements of Peruvian political culture manifested themselves in the new president's approach to both the debt issue and Peru's economy. It can be seen that repudiation of "excessive" debt payments would obviously be popular in a nation whose economy had been in decline for several years and for which debt service demanded an ever-larger share of scarce financial resources. Although the Belaunde administration had quietly ceased making debt service payments, it was the Garcia administration which chose to publicize this condition, and politicize the relationship between borrower and lenders. It is not the fact of attacking the level of indebtedness which is so revealing as the method chosen by the Garcia regime to do so. Even at 10% of export earnings, the payment initiative articulated by Garcia was more than had been attempted by his predecessor. Despite the Garcia government's commitment to honoring its international obligations, its rhetoric served to draw attention not to what Peru was doing but to

what the president was saying his nation would refuse to do. Emphasis was intentionally placed on the regime's radical opposition to the established "rules" of the international financial system. Thus, such an assertive stance could do little more than create an air of contention rather than cooperation between the government and its creditors. A possible explanation for this apparent ambiguity is that Garcia determined the international debt issue was less important in and of itself than as a catalyst for forging domestic support for his economic strategies as well as a method of freeing-up resources for its implementation. Further, this issue can be seen to support pursuit of an increased international leadership role for Alan Garcia as it painted him in heroic terms, setting the example for the Third World in re-defining their relationships with the First World. Peru's economic situation was certainly serious but it was a conscious decision by the president to work outside rather than within the international economic system. The decision can be understood as necessary in a political context if Garcia were to separate himself from the rest of the leaders of various nations also facing debt crises, as well as being necessary if he were to galvanize public support for his view of the nation's economic future. Garcia's strategy was neither original nor unprecedented. It was, however, an attempt to secure the dual benefits of economic recovery and political consolidation through a strategy that targeted the lower socioeconomic classes specifically and was couched in terms of nationalism and heroic anti-imperialism. The Garcia economic strategy can be seen as displaying a consistency with both elements of the military's "state capitalism" and Belaunde's gradualist "market economy". The political ideologies of the military and Garcia governments, distinguished by a marked anti-capitalist

rhetoric and a declared socialist orientation, further links Garcia to his predecessors. Populism and state intervention in the economy were central factors in all three earlier regimes. Regarding Peru's break with the international financial community, logic would argue that the president could/should have reached some accommodation with the multilateral agencies, governments, and bankers whereby his nation could avail itself of the means to lessen or cushion the social costs of economic deterioration if not to initiate a new economic strategy. That fact that such was not the case and that it remains so points to the existence of powerful factors influencing Garcia's policy decisions.

F. IN THE INTERNATIONAL ARENA

One factor taking precedence over Peru's socioeconomic demise in shaping President Garcia's policy decisions can be argued to be the primacy he apparently attaches to enhancing his personal power and prestige in the international political arena even at the expense of domestic economic viability. As Raul P. Sabra, assistant director of the Latin American Area Center at the University of Arizona noted in *Political Development And Democracy In Peru*:

Peru's assertive participation in the Contadora Support Group, President Garcia's personal support for the Sandanista regime, and the Peruvian Foreign Ministry's aspirations to Third World leadership on the debt issue all attest to a reassertion of an activist role for Peru in the international arena. (Sabra 1987, 128).

The Non-Aligned Movement, a key target of Garcia's ambitions, responded favorably to his attacks on the international system and the relationships between Third World debtors and First World lenders.

Peru received the support of the Non-Aligned Movement at its Meeting of Foreign Ministers held in Luanda (September 1985) and at its Presidential Summit held in Zimbabwe the following year. (Costa 1987, 62).

It can be surmised that President Garcia, having built a reputation and enhanced his prestige in the Movement, utilized the economic crisis his policies exacerbated and the resultant contentiousness between Peru and its creditors to advance himself as a potential leader of the Non-Aligned Movement. Such pragmatism is consistent with the aspirations of a president who needs a very large (international) stage on which to perform. As the source of domestic and international economic policy, President Garcia increased his prestige, particularly among the constituency he was most concerned with, Third World and non-aligned states, with Peru's (read Garcia's) 1986 victory at the U.N.:

Although a [Peruvian sponsored] Draft Resolution was withdrawn because of opposition from the United States and other developed countries, the 1986 General Assembly granted recognition of the foreign debt crisis as a permanent issue, implicitly recognizing the political character of the issue in the process. (Costa 1987, 62).

Economics, for Alan Garcia, is a political tool; the economy is a means rather than an end of political power. Alan Garcia presides over a disintegrating economy in a nation fragmenting under the weight of impending socioeconomic and sociopolitical chaos. Still, in the international arena and upon that stage, Garcia continues to work to cast a long shadow; somehow finding there an image of power and prestige denied him in Peru. Abraham F. Lowenthal, writing in 1988, noted even then that the fabric of Peru's internal order was failing:

Public trust in the whole government, including Congress, is low and declining. The decay of political institutions is pervasive. (*Los Angeles Times* 23 Oct 1988).

The demise of Peru's political institutions had little effect on President Garcia's pursuit of his personal agenda. Regional relations, relations with the U.S. and USSR, and internationalism all were given considerably more active input than the collapsing social order. The reason seems clear: increasingly rejected at home for the failure of his economic policies, and their societal consequences, Garcia was still in control of his constitutionally-mandated power as source of and spokesman for Peru's foreign policy. Along with the earlier cited assertion by the Minister of Foreign Affairs that the cornerstone of government policy is foreign policy, which in turn is identified as specifically associated with Garcia, the formulation and implementation of such policy must occur in accordance with criteria set by the president. The ability of the president to act in the international arena insulated from the effects of delegation or sharing authority (power) constitutes the supreme prerogative granted to the president by Peru's political system. Therefore, even if his domestic programs have crashed, insuring his and APRA's fall from power in the 1990 elections, Alan Garcia has done his predecessors in Peru and his peers in Latin America "one better" by packaging himself as a role model/leader in international affairs. His celebrity status gives him access to a potential "elder statesman" role in the region as well as possibly within the Socialist International and Non-Aligned Movement. Again the conclusion is inescapable: it is the president rather than Peru who is identified as accruing the most benefit from presidential authority. Peru is the mantle, and

international relations the stage upon which Alan Garcia has built his image and reputation.

There is historic continuity in this choice of an international setting as a means for injecting the president's power back into the domestic sphere at a higher rate of return than might be realized were the international and domestic arenas addressed as distinct phenomena. Besides grabbing U.S. and Western attention for opening Peru to Soviet weaponry and advisors, the Velasco regime in 1972 granted Cuba diplomatic recognition. Velasco was also a key force in forming the Andean Pact in 1969 and was an early supporter of the "Group of 77", the bloc of nations that first asserted the North-South cleavage argument regarding the international economic system. For his part, Belaunde supported Argentina in the Falklands/Malvinas War, condemned the U.S. invasion of Grenada in 1983, and received Daniel Ortega in Lima, granting him the protocol status of a head of state and voicing opposition to any outside (read U.S.) intervention in Central America. As can be seen, Garcia is once again neither the first nor arguably the most radical Peruvian president to utilize the international arena for staking out positions that were simultaneously controversial yet noteworthy. The tenets identified as marking Garcia's policy priorities are thus shown to be consistent with such manifestations in both military and civilian predecessors. Alan Garcia has, during his term, simply utilized the international arena more frequently and more effectively than Velasco, Bermudez, or Belaunde; creating opportunities and seizing the initiative rather than merely react to an issue once it has developed.

G. REGIONAL PRIORITIES & POSSIBILITIES

Since 1985 the Garcia regime has pursued improved relations with neighboring states. Always active in the Andean Pact, Peru under Garcia has expanded its bilateral contacts with neighbors in furtherance of the president's agenda of making Peru (and thus the president) a leader in fostering stability and growth in the sub-region. Any assessment of this activism must of course be tempered by consideration of fundamental issues involving the ambiguity between regional dynamism and domestic dysfunction. A brief review of dominant actors and issues involved reinforces the perception of this area of activity being less an end in itself than an instrument of Garcia's pragmatic approach to policy as a means by which his power and prestige might be enhanced.

A priority for the Garcia administration has been to achieve a reduction in tensions between Peru, Ecuador, and Chile. Garcia has pushed hard for a reduction in armaments among these states as a necessary prerequisite for sub-regional stability and regional solidarity. Related to this effort at rapprochement is the necessity on Peru's part to achieve arms reductions because, regardless of arguments for mutual interest in such actions, Garcia has neither the economic resources nor the political maneuverability necessary to maintain an arms race. The politics of the international arena can be understood as exercising a prevailing influence on policy close to home:

Peru presented proposals for limiting regional military expenditures to the *Non-Aligned Movement*, then to the *U.N. General Assembly* which subsequently adopted a resolution on disarmament based on Peru's proposal. (Costa 1987, 63).

In the wake of such an internationally recognized accomplishment Garcia can be seen to have little choice but to seek the cooperation of Ecuador and Chile, among others, in supporting a policy to which he has committed Peru regardless of whether or not potential adversaries do so. Other initiatives, including reduction of the number of Mirage fighter-bombers ordered from France, and halting a major naval reconstruction project, despite being publicized as in support of disarmament, must be seen to reflect Peru's economic constraints as much as an effort to lead the way to stability and solidarity with neighbors.

Peru is active with Columbia and Bolivia in anti-drug efforts. This must be seen as more than a condemnation of drugs being exported from these states as inherently evil. Rather, it reflects both the political and economic realities of U.S. pressures and domestic threats to regime/system stability as comprising forces that shape policy decisions. U.S. aid has been tied to performance in the anti-narcotics effort. Whether or not Garcia or Peruvians view the situation as a U.S. problem of consumption or a crusade against an acknowledged evil, government policy is to participate in the campaign as the cost of keeping the aid lines open. The highest manifestation of Garcia's maneuverability is to be able to draw higher disbursements of funds, equipment, and publicity out of the U.S.; not to decide whether or not to work with neighbors and the Americans. Further, the narcotics issue has become tied to violent domestic opposition to the regime that constitutes a viable threat to the Peruvian social order. Tina Rosenberg, a resident associate at the Carnegie Endowment, commenting on the Sendero phenomenon and its affect on Peruvian government and society, asserts that:

The group [Sendero] finances itself by 'liberating' property and by charging Colombian cocoa traffickers a tax to buy cocoa from Peruvian growers in the Upper Huallaga Valley. (*San Jose Mercury News* 29 Apr 1990).

In Peru, the cocoa grower-Sendero Luminoso-drug exporter triad has strengthened each at the expense of both societal stability and, for Garcia, personal power.

This aspect of cooperation with the United States is contrasted to Peru's (along with Columbia) outspoken criticism of U.S. policy and activities in Central America. While the U.S. has been the lightning rod for Garcia's attacks on "imperialism" and "exploitation", Central America has been his personal project for keeping himself in the international spotlight and for consolidating support among both hemispheric and non-aligned states. Rather than confront the issues of violence and societal instability plaguing his country, Garcia has relinquished conduct of the anti-Sendero campaign in Peru to the military while investing himself heavily in the internationally more publicized effort to advance the Sandinista cause in Nicaragua. Denied membership in the Contadora Group, Garcia injected Peru into the process as an observer at all Contadora meetings, and went on to propose formation of his own Latin American support group, Grupo de Apoyo/Grupo de Lima, formed in 1985. Garcia later attended the signing of the new Nicaraguan constitution in 1987, clearly aligning himself with Ortega (as had Belaunde). On this occasion Garcia stated:

We were and we will be on Nicaragua's side in the fight against intervention ... That is why I am here to take in my hands, with you, the anti-imperialist flag, which is the flag of our continent. (Costa 1987, 67).

The question must be asked why did Garcia invest himself so heavily in an issue where Peru could do little more than act on the margins. A strictly Peru-oriented answer would conclude that the cost/gain calculation was out of line with such a policy and so the answer must lie elsewhere. That answer can be found, once more, in Garcia's personality and his presidency. Eduardo Ferrero Costa, commenting on Garcia's involvement in Central American politics and with the Non-Aligned Movement has noted that Garcia's activism:

...is but another manifestation of the larger policy of projecting his personal influence and prestige abroad. (Costa 1987, 68).

The revised cost/gain calculation of his involvement not only in the Nicaragua issue but in Central America, as well as in regional relations points to his determination that the paramount criteria shaping policy development and implementation is the personal influence and enhanced prestige such activity accrues to Alan Garcia; regardless of its utility or advantage to Peru. In the wake of the Sandinista defeat in the March 1990 presidential elections in Nicaragua, Garcia will be tarred by his association with and commitment of his own and "Peru's" support for a regime rejected by its own people at their first opportunity.

H. INTERNATIONAL SUPPORT

Peru, reflecting the president's party identity and ideological orientation, is the recipient of both moral and material support from abroad. Emphasis on the socialist aspect of Garcia's "democratic socialism" identity can be seen as central to the relationship with the USSR. From the onset of the Velasco regime, Peru has

availed itself of Soviet weaponry, aid, and commercial ties. While certainly not a Soviet client state per se, this support has purchased the USSR access for its military and technical personnel. Even at numbers estimated at only in the hundreds, the Soviets have more personnel in Peru than anywhere else in the Western Hemisphere except Cuba and, while the Sandinistas held power, Nicaragua. (Department of Defense 1989, 20). The Soviet investment has gained them access in the region and influence in Peru. Economic support from the USSR has both eased the Peruvian economy's resource drought as well as enabling the regime to direct exports to the USSR as both a market and in payment for aid-terms advantageous to Peru. As Costa pointed out:

...it is interesting to note that Peru has been paying part of its debt to socialist countries (principally the Soviet Union) in goods rather than in foreign currency. In this way, about 20% of all payments made in 1986 were to socialist countries although the debt owed to those countries comprised less than 10% of Peru's total debt. (Costa 1987, 61).

As host of the 17th Socialist International in June 1986, Garcia again took his predecessors "one better" in that not only was Peru's left-oriented political identity further legitimated but, even more important, Garcia was moved to the forefront of the organization as its host; the dominant personality among South Americans present. Noteworthy is the fact that within the span of Garcia's tenure Socialist governments have had control in Spain, France and Italy. Among the Europeans, the democratic element of Garcia's "democratic socialism" has been the key to winning their support. Having portrayed himself as a Social Democrat alternative to the IU Marxists when elected in 1985, it is not surprising that European Social Democrat parties have likewise supported the regime. Garcia has

appealed to the center-left which either dominates or is highly influential in numerous western European political systems. Consistent with this aspect of his portrayal as the international democrat, Peru (read Garcia) has availed itself of aid from the EEC, West Germany and Italy.

Support from the international community was not reciprocated by Garcia's either shifting further toward the left or the center, but by his opening new channels of access to the international community. For example, between 1985-1987 Peru opened 10 new embassies in Asian countries alone. With a deteriorating economy and social infrastructure such actions might seem contradictory, but if policy action is understood as a projection of the president into the international arena, such activity is consistent with Garcia's personality and the phenomenon of the Peruvian presidency. The Japanese have supposedly expressed interest in investing in Peru although whether this is the result of expanded international contacts by Peru or a natural consequence of Japanese interest in expanding their markets and increasing their penetration of Latin American economies is an issue yet to unfold.

I. HUMAN RIGHTS: THE "WRONG STUFF"

The democratic processes which brought Peru the Garcia presidency have not translated themselves into effective democratic government. A principal factor contributing to and complicating this failure is the subordination of democratic governance to the exigencies of prosecuting Peru's anti-guerrilla war throughout much of the country. Secondly, it is in the failed policies of the Garcia regime that the conditions for the growth of anti-government (possibly anti-civilization) violence, as well as an equally violent government reaction, have been nurtured.

Two opposition groups are today identified as the sources of the majority of anti-government armed struggle. The Maoist group Sendero Luminoso (Shining Path), and the Castroite, Tupac Amaru Revolutionary Movement (MRTA) are engaging in ever-increasingly violent opposition to the government. In response, the Garcia regime has loosed a violent counter-insurgency campaign on the countryside. Additionally, an ostensibly "anti-communist" guerrilla movement, the Rodrigo Franco Command, emerged in late 1988 and has added its violence to the growing chaos in Peru. By far the most active and violent of these guerrilla movements is Sendero Luminoso and it is upon their activities and the government's response that attention must focus.

Peru is a nation with a mixed cultural identity and heritage. A significant population group is made up of indigenous Indians; historically subordinated to and often exploited by Peruvians descended from Spanish conquerors and European settlers. This identity/heritage cleavage has long supported a mutual animosity between population groups; along not only on cultural but regional lines. Speaking about the phenomenon of social cleavages and their impact on contemporary Peru, Max Hernandez, a Peruvian psychiatrist and historian asserts that:

One quarter of Peruvians are whites who are unhappy that Pizarro didn't kill all the Indians...One quarter are whites who feel guilty about what Pizarro did to the Indians. One quarter are Indians ashamed of not putting up a fight against the invaders. And one quarter are Indians who would like to kill all the others. (*The New York Times* 14 May 1989).

Shining Path was founded in the 1960s as a student organization by Abimale Guzman, a professor teaching at the public university in Ayacucho, a department

in Peru's mountainous sierra region. Building support within the predominantly Indian peasant communities of the region throughout the intervening years, Sendero opened its assault on the political system with the bombing of a ballot box during the 1980 national elections. (Berg 1987). From this opening action, the group has, since 1980, both increased the intensity of its violence and, most importantly, the areas of Peru in which it operates. The Peruvian government, particularly under Garcia, has been placed in the position of being forced to react to Sendero initiatives and in so doing has increasingly adopted tactics similar to those of the guerrillas; marked by indiscriminate violence and a blatant disregard for human rights. In becoming little more than an equally violent force threatening the very existence of the Peruvian people, the Garcia regime has reached its nadir: squandering its authority and prostituting democratic governance to an attempt to address the insurgency as an entity unto itself rather than an indication of a larger national crisis. Once more the link between the failure of Garcia's economic model alluded to earlier and its sociopolitical consequences are reflected in the observations of Alan Riding, who noted in 1988 that:

Perhaps the greatest fear is that, if the economy is engulfed by five digit hyper-inflation next year, [1989 inflation was reported as 2775% by ECLAC, and 2949% by the IDB and the government] the only beneficiaries will be the Shining Path and the similar Tupac Amaru Revolutionary Movement. Both have expanded their area of operations under the Garcia administration. (*The New York Times* 30 Nov 1988).

In response to Sendero offensives, the Garcia government has surrendered control and administration of vast areas of the nation to military and paramilitary forces. In such "Emergency Zones", human and legal rights as well as civilian

authority are all suspended in deference to the counter-insurgency campaign. From a total of 20 provinces placed under military control between 1980 and 1984, Amnesty International reports that:

At the beginning of 1989, 56 of the country's 181 provinces were under state of emergency. Over half the population now lives in areas designated emergency zones, headed by 'political-military commands'. (Amnesty International 1989, 2).

The Garcia regime has, as previously stated, not only failed to defeat the military threat to the security of the nation, it has itself become part of a larger threat that includes today not only equally deadly government violence but also the prospect of increasing disregard for democratic processes and human rights; even moreso by the government than by Sendero. The Carnegie Endowment's Patricia Thornberg captured the severity of the threat to Peruvian civilization in the following observation:

In their attempt to fight Sendero, the Peruvian security forces have become the worst human rights violators on the planet, leading the world in forced disappearances since 1987. (*San Jose Mercury News* 29 Apr 1990).

The level of state-committed violence in Peru is a stark repudiation of the spirit and responsibilities incumbent upon a democratically constituted government in dealing with internal opposition. As head of state, Alan Garcia must bear responsibility not only for the conduct of government forces in the field but more, for surrendering Presidential and civilian authority to the military. Being democratically elected, the Garcia regime's use of indiscriminate violence and its disregard for human rights is undeniable testament to the fact that mere

democratic mechanisms do not guarantee democratic (read legitimate and effective) governance. In a report specifically addressing Peruvian human rights conditions, Amnesty International stated that:

Over the past seven years [1982-1989, periods of democratically elected civilian presidents] Amnesty International has documented the 'disappearance' of more than 3,000 persons held in government custody. Torture, mutilation, 'disappearance', murder and rape have become a hallmark of the armed forces 'campaign against terrorism'. (Amnesty International 1989, 2).

As stated earlier, the Garcia regime has lost the initiative to Sendero and so it is the guerrillas and not the government setting the terms for the conduct of the insurgency and, even more important for the Peruvian people, the regime's response. In Peru the government has opted to meet a terrorist threat with even more pervasive counter-terrorism. While certainly not an unprecedented strategy it is however one which serves not only to reinforce guerrilla support among victim populations but further aggravates the conditions (political and economic) which threatens, even more than Shining Path, *to bring on the collapse not only of the rule of law but of Peruvian society.*

In the counter-insurgency, President Garcia has effectively surrendered Presidential authority (and responsibility?) to the military, being unwilling or unable to make the hard leadership choices which might have addressed the very issues that made Sendero Luminoso possible in the first place, but which now threaten to make its defeat, even if possible, a Pyrrhic victory. As early as 1986 the growing contradiction between democratic processes which gave Garcia his authority and military excesses which have since overwhelmed it, was clearly evident. In June 1986, Garcia hosted the 17th Socialist International congress in

Lima. While this profoundly important (for Garcia personally) event was underway, Sendero personnel being held in Peruvian prisons embarrassed Garcia and the government by staging coordinated rebellions. Garcia authorized the military to use "maximum force" to suppress the rebels; the consequences were dramatic and alarming.

...at El Fronton, the maximum-security island prison off Callao, the fighting raged for 18 hours. Marines, supported by helicopter-gunships, demolished the mutineers' cellblock. As many as 90 percent of the 300 rebels died in the assault. Units of the Republican Guard stormed the Lurigancho penitentiary, killing 126 inmates. At least 100 of the 126 were executed by guardsmen after they surrendered. (Werlich 1987, 37).

Garcia ordered the prosecution of 95 Guardsmen but no action was taken against any flag rank officers associated with or involved in the prison rebellion. The assault on the Peruvian people by its own military has continued, largely unabated, throughout Garcia's tenure. The president has effectively granted the military a free hand in determining strategies and carrying them out. In constituting the issue as one of narrowly defined military options, the Garcia regime has both attempted to divorce itself from responsibility for the conditions which have nurtured the insurgency, and limited itself to a response in kind as the only level on which it appears capable of initiating if not controlling government action. Needing the military to carry out this agenda, Garcia's spectrum of failed policies have combined to make it necessary as well as unavoidable that he surrender control of the armed forces to the generals as the price of keeping their troops engaged in the counter-insurgency; and out of politics. In 1987, the Washington Office On Latin America (WOLA) charged that:

...military and police forces continue to commit abuses with impunity, despite the fact that they are constitutionally under the control of a civilian-elected government. (Washington Office On Latin America 1987, 3).

It can be seen that surrender of control over, and abandonment of accountability for the armed forces is the last hope Garcia had for precluding such a disintegration of Peruvian civilization that the military would be "forced" to intervene in government (and against Garcia) as the only means of salvaging national survival. As the situation presently stands, the military has been co-opted into the effort to preserve the Garcia regime as a principal if not primary consequence of their taking the lead in the anti-guerrilla campaign. So occupied, the military cannot be distracted by politics so long as there is a chance that their strategies might yet defeat the insurgents.

The cost to Peru for Garcia's failed policies has been very high. Almost half the population lives under military control and are subject to arbitrary violence not only from anti-government guerrillas but from their own armed forces as well; all without a viable system of accountability or individual rights protection.

By mid-1989, the combination of insurgent violence and government response had left almost 13,000 people dead, an estimated 3,000 people 'disappeared' and well over \$10 billion in property damage. (Palmer 1990, 7).

The notion of costs is central to the examination of what has become of Peruvian human rights under the Garcia regime; as well as being central to an explanation of how and why such a state of affairs has come to be. To address costs is to place the argument once again in the the context of the economics-politics paradigm wherein each influences and in turn is influenced by the other, though

not necessarily in equal measure. It must be noted that, particularly in the case of Garcia's Peru, the failure of the nation's economic model underlies the subsequent collapse of political institutions and the rule of law afflicting much of the nation. The matter is not so much that the latter could not have occurred without the former; rather, that the failed economic policies of the Garcia administration, as the latest in a long line of failed economic models, increasingly narrowed the president's room to maneuver in the domestic political sphere. This created a contradiction between the desire of the president to intervene at all levels of Peruvian societal relationships and the forces pushing his attention and ability to intervene ever-further away from domestic spheres. Lacking an economic base upon which to build support for peaceful democratic grievance adjudication, Garcia denied himself the ability to neutralize a violent, yet minority, opposition movement by denying it the socioeconomic conditions upon which to rationalize/build support for its rejection of national political processes. In almost all respects, the Garcia regime lost the initiative in dealing with Sendero itself, as well as the causes for its birth and ability to sustain itself throughout Peru. Alan Garcia is not the first Peruvian president to have his chosen economic model fail; yet he does bear responsibility for being the Peruvian president who has failed to check a threat to his people originating from within his own government; to an extent possibly even more pronounced than that from without. The dual failure of Alan Garcia has condemned Peru to conflict rather than contest in the political arena. The phenomenon of the failure of Peru's democratically elected president to develop policies that were truly national in scope and orientation is a brand upon

the larger Peruvian economics-politics paradigm which has been examined throughout this study. As noted in *Debt and Democracy in Latin America*:

Because of this chronic difficulty [read failure] in channeling diverse multiclass interests toward constructive means, Peru has become best known in the 1980s for parallel underground expressions of such interests in the forms of a burgeoning informal economy and the Sendero Luminoso (Shining Path) guerrilla movement. (Stallings & Kaufman 1989, 164).

The Garcia government intervened in and interfered with Peru's economy yet failed to effectively involve itself with or invest itself in the counter-insurgency campaign. In each instance action or inaction was the opposite of what was needed; and in each case the consequences of Garcia's display of the "wrong stuff" as president has proven devastating for Peru.

J. ENDINGS & BEGINNINGS

Alan Garcia's mandate is winding inexorably toward its end. In the weeks preceding the April round of voting, the prevailing topic of discussion in Peru had been whether the civil-democratic process would survive until Garcia turned over power to his successor. The democratic electoral process is still operative in Peru, with a run-off between the top two finishers, Vargas Llosa and Alberto Fujimori, scheduled for June. Barring the total collapse of Peruvian society into anarchy, or a Marxist electoral victory, the military-as an acknowledged political actor-has shown itself little interested in taking on the economic chaos and social trauma afflicting Peru. The military is fully occupied in its fight against the Sendero insurgents and in anti-drug operations. Its inability to achieve victory in these theaters, compounded by increasing evidence of human rights violations, has

effectively neutralized the military's ability to assume a political role in other than a crisis threatening national survival.

The options open to Peruvians are quite limited; defined to a large extent by the economic models associated with the political parties/candidates. Peru's traditional rejection of a failed incumbent and his economic model is reflected in the shift of popular political identity once again. In contrast to the centrist-populist platform and policies associated with the Garcia presidency, the leading candidates in 1990 proposed orienting the economy either uncompromisingly right, left, or to some unspecified centrist position.

K. CONCLUSIONS & CONSIDERATIONS

A profound sense of *deja-vu* pervades any examination of the Peruvian electoral campaign. The personalities and programs are packaged differently but the parameters within which the system operates remains strikingly familiar. For whichever candidate emerges victorious in the presidential elections, his ascension will necessitate the repudiation of his predecessors economic model as well as the bulk of his policies. This will once more take Peru's socioeconomic and sociopolitical relationship systems back to a zero point from which the new administration must begin rather than continue the climb out of economic and societal dysfunction. What remains at the starting point is the legacy of all the failures of all the models of all the regimes which preceeded it. It is this legacy which most consistently has and in the future will continue to threaten the next president's ability to build consensus rather than dictate compliance.

The ambiguity of this reality lies in the fact that Garcia's successor, if a democratically elected civilian, will however carry on a new tradition of which

Garcia is nonetheless an integral part-a somehow (miraculously?) functioning electoral process. The questions of future history will be built around whether a developing political process can overcome the handicap of an entrenched, disfigured political culture. The economics-politics link must be broken in Peru if the nation is to be freed from the tradition of a politicized economy. Growth, freedom and the future are contingent upon Peru's president demonstrating, and the electorate demanding, leadership-neither dictation nor flawed democratic-authoritarianism. If Peru is to grow it must have a truly national economic model; one to which Peruvians will commit, and one that transcends presidents, parties, and time.

Alan Garcia might, if Peru is very fortunate, be marked with the further distinction of being the last president who availed himself of the country in pursuit of his personal goals. Garcia is no more than one of a long line of Peruvian presidents for whom government was an instrument to be used rather than a trust to be kept.

Another change is coming in Peru: a new president; a new economic model, and a new profession of hope that a democratic system can produce the factors of a nation's life rather than merely mirror the shadows of existence. In Peru, these are long odds.

V. CHILE'S POLITICS

A. RENEWAL & RETURN

On Sunday 11 March 1990 Chileans and the world witnessed an historic event. On that day a democratically elected civilian assumed the presidency; ending the sixteen and one half year rule of General Augusto Pinochet. This is not to say that the military's involvement in government has ceased, rather that the process of democratic restoration has begun. General Pinochet is quick to remind the civilians that he, through the military, maintains veto power over the political process in Chile.

Questions that must be considered in examining this phenomenon center on identifying and evaluating the forces; political, economic and cultural that combined to create the environment wherein the restoration of democratic governance was begun. Further, these elements must be examined in order to assess the prospects for democratic consolidation in Chile. This study will attempt to demonstrate the existence of forces common to both the breakdown of democratic rule in 1973 and creation of the environment in which the military could and would permit itself to be replaced as national government. These forces can also be focused on to evaluate Chile's political future, and the nature of the political institutions expected to be operative therein. If successful in its democratic transition, Chile can rightly claim a victory over its own worst tendencies in weighing the costs of democratic government and choosing to pay them rather than settle for the paternalistic-authoritarianism inherent in

dictatorship; be it military-based as with Pinochet or civilian-based, as with Peru's Alan Garcia.

The emergence of the military as a dominant political force was not the result of some dramatic aberration in Chilean political culture. Conditions conducive to radical change in the political system will be seen to be the product of systemic forces rather than a unilateral act by the military. The extended tenure of the Pinochet regime must likewise be understood as part of a larger socio-political paradigm rather than merely a "military dictatorship". This understanding is necessary due to the existence of a dominant economic component as a prime force motivating as well as directing not only the Pinochet regime but Chilean society itself. Speaking to this phenomenon, Gordon Richards has observed:

Whatever the role of other factors, the overthrow of democratic systems by the armed forces cannot be understood without some reference to macroeconomic policy. More specifically, the breakdown of democracy has taken place during periods characterized by simultaneous recession, major acceleration in the inflation rate (sometimes attaining hyperinflation magnitudes), and exchange rate depreciation crises. (Richards 1985, 157).

The inseparable link between politics and economics will likewise be seen to be a prime force in determining the nation's political future.

B. PINOCHET AND THE MILITARY

In Chile, the development of the military as a dominant political force can be seen to be the result of an accelerated timetable. Historic anti-communist sentiment could not abide Allende's rhetoric and policies. In *Pinochet. The Politics Of Power*, Arriagada observes:

The viscerally anticommunist tradition of the Chilean Army had begun long before the Russian Revolution in 1917. Anticommunism in Chile developed at the beginning of the twentieth century as a result of the conflict between two major European influences: Prussian militarism versus the socialist ideas of the Second International...The Prussian influence was reflected in the Memorial del Ejercito de Chile, which condemned Bolsheviks and communist ideas at least fifteen years before the Chilean Communist Party was founded in 1922. (Arriagada 1988, 87).

Therefore, in spite of its long democratic/constitutional tradition, the military was driven by a stronger influence of the right wherein a position in active opposition to the president took precedence over traditional subordination to civilian authority. When the military seized power in 1973 it was, for Gen. Pinochet and the leaders of the military services, an act of national salvation. They perceived themselves to be rescuing Chile from Marxism-Leninism, the outcome of Allende's agenda had it not been disrupted. In the last days of his presidency, and his life, Salvador Allende was aware of the forces he had set in motion and that the political system would be disfigured by the transformation to come. Of his and Chile's fate, he said:

I shall see you all there, plotting and planning it, but with a great deal more difficulty than you are having now, how to get rid of the soldier you put in my place. Because it won't cost you much to get him in. But by heavens, it will cost you something to get him out! (Latin American Bureau 1983, 102).

The years preceding the events of 11 March 1990 have proven Allende correct. Once in power the military, particularly Gen. Pinochet, not only forcibly took control of government but initiated a restructuring of society that can only be understood as revolutionary in its depth and scope. In Chile there has been combat, casualties, and the societal upheaval that comes with revolution.

The Chilean regime installed in 1973 was not a mere military government with a ruling junta, but a military-based political system wherein Pinochet assumed the presidency and dominant authority of the Executive, and the junta effectively became the Legislative branch, personally and systemically subordinated to him. In Chile the nation came to reflect Pinochet, rather than his becoming the nation's representative. Equally important is the fact that under Pinochet, revolutionary violence would spring forth from and be rationalized in the name of economic theory become ideology. The compressed and accelerated spectrum of experience made Chile a unique environment for comparing multiple and historically opposed political and economic models applied to and in a country previously "untainted" by revolutionary experiments.

As a result of all this [Allende, Popular Unity, the coup, Pinochet, the military] Chile became highly topical for a variety of international controversies. Left-wing 'reformists' and 'revolutionaries' used it to argue the feasibility of each others strategies to conquer power. Liberals and conservatives in the United States fought over the morality, legality and political convenience of destabilizing a democratically elected government. And economists found there a fertile ground for their own disputes on the merits of neo-Keynesian and neo-liberal policies. (Kaffman 1985, 115).

It became easy to focus on the dominant personalities of both Allende and Pinochet in attempting to explain the events of 1970 and 1973. In The case of post-coup Chile however, the search for Pinochet too often distracts attention from examination of the complexity and totality of change initially imposed upon and, more important, now accepted by Chileans.

C. 1973-1989: THE JOURNEY

Upon assuming power the government displayed the confidence and efficiency which heretofore had been associated with military professionalism but would now become the trademark of the government. The military, as a dominant force, subordinated the traditional elements of Chile's political process (coalitions and compromises), as well as the full spectrum of political actors and institutions, to its control. Parties, personalities, and procedures outside the scope of military government utility were suppressed. *Economics was elevated while democratic tradition and individual rights were subordinated in the new hierarchy of government priorities.* For example, critics of the regime referred to the 1973-1975 period as the "Apagon Cultural", the "Cultural Blackout": art forms developed and supported during, and even before the Allende years were actively suppressed. Internal and external exile, imprisonment, and harassment were utilized by the state to silence social as well as political commentary. (Hajman 1985, 4). Concerning the Cultural Blackout, author Jacabo Timmerman noted:

There has been growth in literature and art with themes of everyday life. But there is a scarcity of literature and art that probes below the surface in search of what is permanent. There is much artistic combativeness without creative depth. (Timmerman 1987, 53).

Such an orientation as Timmerman asserts existed is consistent with a society in its early developmental stages; not reflective of Chile's 159 years of statehood. Such a condition can be seen to exist where a revolutionary regime is engaged in the repudiation of the society's cultural heritage. Cultural Blackout is consistent with such phenomena as the Bolsheviks repudiation of Russia's Tsarist

traditions, book burnings under the Nazi regime, or the Chinese Cultural Revolution's rejection of traditional culture and art. All such regressions can be understood as necessary in a revolutionary environment in order that the new state be able to erase any links with the system it has attacked and defeated.

While the military government undertook societal reconstruction, the military institution was to be insulated from politics. In this respect we first glimpse, even within the revolution imposed on society by the military, the attempt to move the armed forces back out of the political arena; toward a more traditional role as defenders of the nation rather than tools of the regime. Of this accomplishment by the Pinochet regime, Arturo Valenzuela has observed that:

More important for regime stability than the privileges accorded officers was the reestablishment of traditional norms of obedience to authority and hierarchy of rank, practices that had eroded in the turbulent final months of the Allende government. This meant that to a degree unheard of in other military regimes the Chilean authorities were able to establish a sharp separation between the military as institution and the military as government...[and] once in government service, officers no longer took orders from their military superiors but reported instead to their superiors in government, either military or civilian...Indeed, officers in the military line of duty could be dismissed from the services for discussing politics or policies with fellow officers or with civilians. (Valenzuela in Diamond, Linz, and Lipset 1989, 193).

Another aspect of the drive to replicate traditional, value-oriented command relationships in the new political system was the resurgence in Chile of a national security state identity, and the assertion by the government of a national security doctrine. With internal security forces distinct from the armed forces, the government was able to carry out the suppression of sectors or blocs within society deemed unacceptable or a threat to the "new" course set for the nation. It must be stressed that repressing political opposition, particularly that of the left, was a

priority established by and for the military government. Equally important is the realization that, as mentioned previously, the Pinochet regime successfully accomplished this program while separating the military as an institution from the enforcement arms of the military government. Personnel and units involved in domestic security operations were, particularly after 1975, detached from regular military units and assigned to specific internal security organizations/duties. This separation enabled the Pinochet regime to de-politicize the armed forces (what Gen Prats had failed to accomplish in an ostensibly democratic Allende regime in 1970), yet utilize the military as a source of personnel and more, as a constant presence reminding the population, as well as any potential opposition, of what power the regime could bring to bear if necessary.

In the Pinochet-led military government there occurred a distinct realignment of the forces for change which are the focus of this examination. Chile was being directed toward new goals yet the regime consistently couched its rhetoric in terms of restoring traditional values and relationships. Allende had politicized the military, and fell. Pinochet de-politicized the military and consolidated his power.

Political involvement and noninvolvement have both served a purpose within the authoritarian regime. The shift to military involvement opened the way for the military coup. Afterward, the re-establishment of military noninvolvement in politics served to consolidate power in the person of the Commander in Chief. (Arriagada 1988, 112).

The intensity of this realignment is further indication of the revolutionary scope of the undertaking. The forces for change arrayed by the military were not so constituted simply to restore the status-quo; they sought to create a new

equation. In spite of frequent references to traditional values, the military government sought to destroy the political left, an agenda not in keeping with a history of democratic political relations. Pinochet himself articulated the dominant perception which was to be the basis for the violent re-definition of politics:

The existence and propagation of Leninist-Marxism in the world today represents the destruction of the basic foundations from which the Western and Christian civilizations derive...Society is under the obligation of drastic self-defense, thus giving birth to new restrictive measures in the exercise of personal liberty or lawful rights, in order to reconcile these with the imperative of security which every community justly demands. (Andrain 1988, 151).

Creating agencies to support the national security doctrine, the Direccion Nacional de Inteligencia (DINA), which operated through 1977, and then the Centro Nacional de Informaciones (CNI), made suppression of the opposition a condition associated primarily with these agencies and their periods of operation. The human rights organization *Comision Chilena de Derechos Humanos* (CCDH), (which along with the Church-sponsored *Vicaria de la Solidaridad* are the principal watchdog agencies in Chile), has documented:

...5,000 cases of 'crimes against humanity'-murder, disappearances, and torture-committed by parts of the state apparatus (police and military). Of the documented violations, about 3,000 took place before April 1978. (*Latin American Regional Reports* 21 Dec 1989).

The numbers and especially the periods of the offenses alleged are significant because in detaching the security apparatus from the armed forces, as well as in shifting the identity of the security organization in 1978, the regime adroitly

maintained the integrity of the military as an institution while availing itself of the coercive potential inherent in the national security doctrine. Further indication of the effectiveness of insulating the armed forces from internal security duties is provided in the numbers of officers involved in internal security duty:

...the number of officers directly involved in torture and 'disappearances' was relatively small. One estimate puts the figure as low as 200. (*Latin American Regional Reports* 21 Dec 1989).

The matter of political parties and their influence on as well as within the Pinochet-dominated political environment warrants closer scrutiny. Consistent with both Latin American and Chilean tradition, the domestic political arena was populated by a multiplicity of parties spanning the full spectrum of politics-from the revolutionary left to the reactionary right. While in pre-coup Chile this offered the possibility of continual combination in pursuit of influence or power, in the military government environment, coalition and compromise were neutralized as means by which parties could further their interests. The capture of socio-political as well as socio-economic control of Chile by the Pinochet regime made domestic politics sterile and irrelevant, particularly in the early stages of the regime's tenure. Having consolidated itself in all areas of Chilean society, the military government was a monolithic presence. In an article appearing in the *Journal of Interamerican Studies and World Affairs*, Brian Loveman observed that:

This inability of the opposition to resolve the differences (historical, personal and ideological) which divide them from one another (not to mention the

internal cleavages in most groups as well) has left the military itself as the pivotal arbiter of the government's fate. (Loveman 1987, 31).

Throughout the 1970s to mid-80s, these cleavages served the interests of the Pinochet government. In the absence of cohesive opposition, the regime pursued its political-economic agenda without having to devote assets to debating its efficacy or implementation costs. The Pinochet regime was successful in identifying itself as the sole source for determining and articulating national interests and policies. While, as will be shown, the human rights issue would emerge to influence change, it was never able to gain predominance in Chilean society. This phenomenon is largely the result of the growing confidence of the regime in its ability to effectively control the political landscape; thus enabling a consistent lessening of government-sponsored mass repression in favor of specific enforcement of its prerogatives. Human rights never became a leverage point capable of destabilizing or de-legitimizing Pinochet's regime. Principally through the efforts of the Church it was an influence tool used to moderate rather than challenge the military government.

Having been forced out of the domestic political arena, parties were unable to identify issues around which to unite the electorate, being reduced to positioning themselves more for future advantage over one another than as a credible challenge to government. The Left was divided over the issue of armed struggle to oppose the regime; much of the Right was sympathetic to or supportive of the regime; and the Center was effectively neutralized, displaying more ideological confusion than political activism. The regime had carried out its agenda quite effectively, making itself the only political entity capable of governing. As Gordon Richards observed:

Up to now [1985] the possibility of a return to civilian government in Chile was hampered by the absence of a credible political alternative to the military, since most of this country's major parties were divided and poorly organized. (Richards 1985, 156).

Again, only the Church had broadened its perspective sufficiently to become an acknowledged/accepted actor in the military-controlled society. Into the late 1980s the Church was the dominant non-government institution in Chile. It was accepted by the government as a credible influence broker, and supported by the society as their principal and most effective representative before the regime. Asked to rate national institutions on a scale of 1 to 7, with 7 being the highest confidence rating, Chileans in 1987 responded as follows: the Church earned the highest rating, 5.7; Student Groups 5.4; Unions 5.1; Military 4.5; the "Opposition" 4.1; and Government 3.3. (*Latin American Regional Reports* 16 Apr 1987). The dissatisfaction with the Pinochet regime was obvious yet there were no indications of an effective political opposition in place to aggregate and articulate this sentiment. The data cited above does clearly indicate that the military as an institution was differentiated in the public consciousness from the government. The regime had successfully insulated the armed forces from becoming politicized, but the depth of public dissatisfaction with the government as an institution pointed to unresolved forces for change yet to be manifested.

D. TOWARD ENDINGS & BEGINNINGS

Given the absence of credible opposition or even viable representative political institutions in 1980, the Pinochet regime effectively imposed a new constitution on the nation when, after only thirty days of severely restricted public

discussion on the matter, it was approved by sixty-seven percent of the voters in a national plebiscite. (Arriagada 1988, 43). The new constitution was oriented toward consolidating and protecting the power and prerogatives of the military government.

The key concept in the new constitution was national security; every citizen was obligated to 'honor the fatherland, defend its sovereignty, and contribute to the preservation of national security and the essential values of Chilean tradition.' (Loveman 1986, 30).

According to the 1980 constitution the nation would transition to democratic governance in stages. The first phase was scheduled to last eight years, during which time the country would be governed under provisions of the constitution's 29 transitional articles. Pinochet was specifically named President by the constitution for this period. A plebiscite was to be held by 1989 for the purpose of nominating a candidate for president who was to be voted on by the population and inaugurated in 1990. Throughout the 1981-1989 transition period the President constitutionally wielded supreme authority; with neither legal nor legislative oversight authorized. Legislative elections were not scheduled to occur until at least 1989. Regardless, the Constitution of 1980 was designed to insure Pinochet's (and by extension the military's) control of government even after a return to democratic mechanisms. The Senate was to be only partially elected by popular vote. The Executive (Pinochet) was afforded the opportunity to "pack" the Senate through constitutionally granted appointment authority. The Chamber of Deputies (the Lower House) was denied its traditional authority to review non-legislative actions by the Executive. A new Constitutional Court, appointed by the Pinochet government, was empowered to expel deputies or senators for drafting or

voting for a bill subsequently deemed "unconstitutional". Finally, the constitution specifically prohibited the political Left from participating in the Legislature. (Falcoff 1989). Even more, in a testament to the earlier assertion that Pinochet had made Chile a reflection of himself, the new constitution established procedures through which Pinochet might receive popular approval to rule until 1997 through popular electoral confirmation in 1989.

It was around this question, the continuation of Pinochet as dictator-president, and not substantive policy issues that the Chilean electorate united to form a viable political opposition: the prospect of Pinochet's continuing presidency galvanized the polity. In *Modern Chile 1970-1989*, Mark Falcoff states:

Once Pinochet was unambiguously proposed as the candidate on August 30, 1988, however, the 'undecideds' [Chileans who had not committed to opposing Pinochet's continuation as President in polls conducted throughout the previous months] began to move in the direction of the 'no' vote...The prospect of another eight years of Pinochet-perhaps another sixteen, if the Constitution permitted, as some thought it did, his candidacy in a new plebiscite in 1997-was sufficient to unite the most disparate elements of the opposition. (Falcoff 1989, 311).

With 92.1% of Chile's 7.43 million eligible voters registered, 54.7% voted "No" to Pinochet remaining as president through 1997-but 43% voted "Yes" in the 5 Oct 1988 referendum. (Valenzuela & Constable 1989). Herein was the first victory for resurgent popular political activism since the 1973 coup. The revival of democratic tradition in the hierarchy of government priorities was, even if inadvertantly, clear in both calling the referendum and, even more important for Chile, in Pinochet's accepting its results.

Neither the civilian rightists nor the armed forces, once convinced they had lost, were willing to abrogate their constitutional contract. (Valenzuela & Constable 1989, 152).

The referendum reflected the growing awareness of Chileans, both in and outside government, that politics might become other than a zero-sum game. Confident that its economic model was accepted and supported, the regime opted to seek legitimation in accordance with traditional constitutionality, albeit a constitution and political system it believed assured it an acceptable outcome. For Chile's political parties the referendum provided an opportunity to identify an issue-Pinochet, that facilitated the re-emergence of coalition and compromise which turned these parties into a credible, united opposition. The phenomenon of a united opposition constituting a political force capable of challenging the government as personified by Pinochet was addressed by Sergio Bitar in an interview with Roger Burbach, director of the Center for the Study of the Americas, appearing in *World Policy Journal*. In it he states:

After the acute polarization that Pinochet introduced into our society, there is a strong desire on the part of all political and social sectors to reach a broad understanding. (Burbach 1989, 175).

In as far as it was the primary cause for the aggregation and articulation of a credible opposition to itself, the Pinochet government must be seen, through facilitating then accepting the 1988 referendum, to have become itself an element working to foster a dramatic change in Chilean politics.

Finding themselves in unexpected and opposite positions with respect to the referendum results, both the regime and the opposition moved to strengthen their

positions. For its part the government began a long process of both communicating its position to the electorate and negotiation with the opposition intended to regain the initiative and so control the outcome of the presidential elections scheduled for December, 1989. Reminding the nation of both the success of its economic programs and the bases of its power, the Pinochet regime presented an image of the velvet-gloved fist. Constitutionality and democratic mechanisms were in the forefront of the public relations campaign, but underlying government participation in the process it might lose was the reminder of the coercive potential inherent in the state. The implications were not lost on the opposition. In the wake of their victory in the referendum the parties of the opposition coalition fought their traditional tendencies to fragment along party/ideological lines. They opted instead to compromise dogmatism on behalf of maintaining a viable coalition with a credible chance of unseating the military government. The referendum reinforced the efficacy of this strategy and the necessity of its continuation throughout the presidential election campaign.

The regime selected Finance Minister, Hernan Buchi, who joined the government in 1985; architect of Chile's current economic recovery, as its candidate. Parties, coalition and compromise, already resurgent in domestic politics, culminated in the opposition presenting a single candidate to run against Buchi in the election. Lawyer Patricio Alywin of the Christian Democrat party returned CD to its traditional role in the political center; providing a choice which both the center/center-right and the left could support in the reasonable expectation not only of success but of their interests being addressed by such a candidate if victorious.

In December 1989 Chile held its first open presidential election since 1970. Patricio Aylwin, leading a coalition of seventeen parties, won the presidency with 55.2% of the vote. Pro-government candidate Hernan Buchi gained 29.4%, while independent right-wing candidate Francisco Javier Errazuriz drew 15.4% of the total. (*Latin American Regional Reports* 8 Feb 1990). The traditional Christian Democrat position in the center of the political spectrum had resumed its function as the nexus of coalition politics in a successful campaign. Return to a center-dominated political system reflected the hard lessons of the preceding sixteen and one half years. However, the almost one-third of the vote that went to Buchi, as well as public sentiment tracked throughout the election campaign, confirmed an acknowledgment by the electorate of both the efficacy and desirability of the economic recovery the Pinochet government had fostered. Speaking about the election, *The Economist* observed:

Their recent violent history has sent Chileans flocking towards moderation. They voted decisively not so much for a leader as for a quiet transition to democracy. (*The Economist* 23 Dec 1989).

The transition to democratic governance was dramatically furthered (not completed) when, on Sunday 11 March 1990, General Augusto Pinochet relinquished the presidency to Patricio Aylwin. Now in civilian control, the presidency was the source for re-directing government toward resumption of traditional democratic/constitutional processes.

E. HUMAN RIGHTS: ACCOUNTABILITY & COSTS

The Pinochet regime utilized repression and coercion to install and consolidate itself in power in the 70s. It evolved into the Pinochet government which earned 43% of the 1988 plebiscite vote for continuing as President through 1997, and whose candidate finished second in democratic presidential elections held in 1989. Despite this phenomenon of evolution however, Chile appears permanently scarred by the cost in human lives of Allende's overthrow and consolidation of the military government. For Chileans the issue is further complicated, and made even more painful, as a result of their lacking experience with violence in the political arena as much as with the guilt many obviously still feel for their perceived culpability in opposing Allende and accepting or even supporting a military intervention in politics.

The revolutionary character of the military coup is clearly evident if one steps back from the specific issue of human rights and attempts to assess the impact of 11 September 1973 on Chile from that day and, in all likelihood, the rest of time. More than merely replacing national leadership, the Chilean military set itself the task of destroying both the institutions and symbols of sociopolitical and socioeconomic culture as they had come to exist after 140 years; not just that which was the result of a three year socialist experiment. The military of necessity broadened its scope of operations to address what it (and its supporters in Chilean society) perceived as the bases upon which anti-democratic political-economic infrastructure had been built and was being nurtured. Institutions, symbols, movements and blocs, are all just empty words without the people that give them life and direction. In Chile, there existed a strong political left; one that went far

beyond the limits of those specifically identified as members of the Allende regime. Therefore, when the military undertook an assault on Allende it likewise encompassed a significant proportion of the population. The spectrum of military activity has ranged from open warfare on the people (the "left"), to eventual misuse of police authority (the "spirit of the law"), and has spanned the tenure of the Pinochet regime-become-government.

The initial stage of military rule, from 1973 through 1975 can be seen to have reflected the military's unfamiliarity with the political landscape resulting in a literal application of hard-line National Security Doctrine as their organizing principle. Such an application argues in favor of waging:

...a full-scale war against this unscrupulous and persistent foe [Marxism-Leninism, which demanded that the state's]...counterinsurgency must meet this challenge primarily through military action. (Pion-Berlin 1989, 416).

The thousands of deaths, imprisonments and internal as well as external banishments, all reflect a military, new to politics, engaging in an excessive application of destructive power so as to "defeat" large blocs of its own population as a prerequisite to accomplishing its perceived national salvation mission.

The period 1975-1977 showed a shift away from the armed forces engaging in "combat" with the civil population toward one where security forces were created and specifically tasked with repressing internal opposition to the regime. Direccion National de Inteligencia (DINA) was created for this mission and it was under its auspices that the majority of human rights violations in post-coup Chile occurred. Of the 5,000 cases of "crimes against humanity" reported by Chile's human rights group Comision de Desechos Humanos (CCDH), the majority reflect a particular

period in time during which DINA was the regime's primary instrument of societal repression. Specifically, of documented violations, the majority took place before April 1978. These figures generally agree with estimates by Chile's preeminent human rights protection group, the Catholic Church's Vicaria de la Solidaridad. As Americas Watch noted:

Between September 1973 and the end of 1977, an unknown number of Chileans disappeared following their arrest by agents of the security police, DINA. Some 600 cases are currently before the courts...however: estimates on total disappearances range up to 2,500. (Americas Watch 1987, 7).

After 1978 both the number of disappearances and the nature of human rights violations again changed. Along with an amnesty law passed to protect personnel who might have committed offenses while in government service, the security apparatus itself was modified; DINA being superceded by the Centro Nacional de Informaciones (CNI). The government, while not liberalized sufficiently to address guaranteeing popular human rights, did nonetheless evolve still further away from the instruments of civil control lending themselves to association with the military institution or, after 1978, with a notion of unrestricted ability on the part of the security forces to act unilaterally against the population.

The change in the human rights environment in Chile reflects much more than an isolated phenomenon. As the military government consolidated its control over the country, it could avail itself of the opportunity to continue "backing off" from repressive measures in dealing with the population. Part political expedient; in part a reflection of Chile's isolation in the international political arena, the Pinochet government's record on human rights earned it far more international

condemnation and thus even more international isolation than has been the case for example in Peru. In an article dealing with the insurgency in Peru, reporter Raymond Bonner noted that:

...Garcia Sayan [of the Andean Commission of Jurists] cites a United Nations report showing that there were more disappearances in Peru in 1983 and 1984 than in Chile during the period from 1973 through 1978-the first years of the government of General Augusto Pinochet. (*The New Yorker* 1988, 57).

For Chile 1973 through 1977 has been identified as the period during which the majority of government-initiated human rights violations occurred. Concerning the events of human rights violations in Chile as compared to Peru, not only do the numbers of serious violations in Peru equal, and in some instances exceed those occurring in Chile but the Peruvian phenomenon is ongoing whereas the Chilean experience is centered in the 1970s. Of the respective situations in each country, Amnesty International reports:

Most of the 700 prisoners who are still 'disappeared' in Chile were arrested between 1973 when the military coup occurred and 1977, when widespread 'disappearances' ceased...[In Peru] Over the past seven years [1982-1989] Amnesty International has documented the 'disappearance' of more than 3,000 prisoners held in government custody. (Amnesty International 1989, 1).

Interestingly, even though diplomatically isolated as a consequence of its experience, the Chilean human rights issue has never been one the government could ignore; thus it nevertheless worked to make the period of repression less pervasive and of shorter duration than otherwise might have been the case. The same democratic traditions which worked to make the military a political novice in

1973, likewise supported public awareness of and commitment to the principles of human rights.

...Chile possesses some of the finest human rights organizations anywhere. Based on traditions of law, social commitment and community organization, these institutions renew the values of a common humanity. (Americas Watch 1987, 1).

The point to be made here is not so much that the Pinochet government has committed human rights offenses but that human rights groups, particularly the Vicariate and the CCDH, have been highly successful in their efforts to influence and so moderate government actions in this critical arena. To its credit it must likewise be acknowledged that the Pinochet government did not lock itself into repression as the means to perpetuate itself in power. Rather, the interaction of distinct economic and political components created and then nurtured by the government, were and continue to be accepted by the Chilean people as a system within which human rights is an increasing government as well as societal priority.

In August 1989 the Pinochet government cancelled emergency legislation, which had given security forces extra-legal powers, that had been in effect since 1973. Although certainly part of a campaign to win popular support in the then-approaching presidential elections, the fact remains that the laws were cancelled and remained so after Pinochet's electoral defeat. Further indication not only of obvious political activity but more importantly, of possible acceptance by the Pinochet government of the need to transition out of isolation is the fact that the government has also ratified both the United Nations and Inter-American Conventions Against Torture. In Chile today judges do rule against security or

police forces found to have utilized "torture" to extract a confession from a prisoner. (Amnesty International 1989).

Human rights issues have also changed in Chile. In its 1989 report, Amnesty International focused its concerns (not its condemnation) increasingly on matters of court effectiveness and timeliness, as well as on the civilian police rather than the military; citing procedural irregularities/misconduct rather than armed violence against the civil population as descriptive of Chile's human rights environment.

F. TOWARD A NEW REALITY

While the elements that combined to bring Patricio Aylwin to the presidency were numerous, they nevertheless existed in an environment shaped and controlled in many respects by Pinochet. Although he surrendered the presidency, Pinochet maintains control of the fist which was always beneath the velvet glove of constitutionality and democratization. Remembering that Pinochet was the source of the 1980 constitution under which the presidency was lost, he had left himself and his agenda a safeguard for their preservation by constitutionally guaranteeing his role as Army commander through 1997, regardless of his status as president. In this sense Pinochet retained possible veto power and the potential for coercive control of the government through the armed forces, which he believes he can politicize and direct to protect his version of Chile's national interests, as well as the institutional interests of the military itself.

It is at this point and on this issue that the first and immediately most critical actions by the Aylwin government will focus. The president and democratic processes must thread their way through and beyond the phenomena

represented by Pinochet as a dominant personality and the military as a political institution. Interestingly, the critical path to resolving this issue does not lie along lines of power per se. Rather, the evolving priority for convincing Pinochet to let go, and to keep the military subordinate to civilian authority, is the issue of criminal accountability.

While no longer a force capable of destabilizing the Pinochet regime, the prospect of military accountability for human rights violations can, if not resolved, threaten the stability of the civilian government. Simply, accountability has been clearly identified by Pinochet as an issue from which a military veto of government prerogative might spring. When in power the Pinochet government passed an amnesty for criminal acts alleged to have occurred by military and government personnel through 1978 (the most repressive era). If this amnesty is withdrawn, or prosecutions of military officers who served in government after 1978 are undertaken, the result could well threaten Chile's democratization. Resolving this issue of accountability is a matter of negotiation rather than dictation:

Getting the soldiers to persuade their chief to take his leave quietly may mean compromises, particularly on the fate of other officers who [might] face trial for crimes committed in the dictator's service. (*The Economist* 23 Dec 1989).

Pinochet has his place in history as well as the armed forces institutional interests to consider in articulating his hard-line position regarding accountability. The military institution is presently insulated from tarring-the offenses being considered are associated specifically with either particular senior officers or military personnel acting in the role of government internal security forces. It is the involvement and vulnerability of the officer corps which can be

seen to be the foundation upon which opposition to human rights accountability is built. Chilean Air Force commander, Gen. Mathei, has stated:

If we want to go forward towards a better future, looking backwards will only make us trip up...Nothing will be achieved and Chile will waste four years of its life, as Argentina did...They say that in Argentina there were 7,000 'disappeared'. Do you think they know what happened to the 7,000 or 14,000 or 30,000? Even after all these trials?. (*Latin American Regional Reports* 21 Dec 1989).

This perspective supports the institutional interest argument in that in Argentina, as pointed out by the general, prosecutions of military officers for offenses committed in that nation's "dirty war" neither resolved questions about the fate of victims, nor created an environment wherein the armed forces saw themselves as part of rather than threatened by a civilian-controlled political system. The argument is further strengthened by the example of Uruguay. Following that country's transition to civilian governance the issue of military accountability was raised in connection with the possibility of initiating trials for officers accused of human rights violations. As noted in *The Wall Street Journal* the cost of such trials was deemed too high by the Uruguayan electorate:

...a vote last month [April 1989] in Uruguay against trials for officers suspected of crimes during the 1973-1985 military rule thus suggests people are now prepared to place democratic stability above recriminations. (*The Wall Street Journal* 4 May 1989).

The message to the Chilean population is clear: press the human rights issue and internal political order is placed in jeopardy. The prospect of prosecutions for Chilean military officers must be assessed as increasingly unlikely. Jonathan Kandall has observed:

The electorate has shifted massively toward the Center. And despite vivid memories of torture, arbitrary detention and widespread executions during the early Pinochet era, most of the political opposition is determined not to allow human rights issues to provoke the military. (*The Wall Street Journal* 7 Jul 1989).

Presently, the Alywin administration seems to be proceeding cautiously in this area. The new president is working to satisfy the need for national catharsis without so threatening the military's institutional interests as to drive it to open opposition to the government. President Alywin has himself stated:

Reconciliation passes through truth, justice and forgiveness. No revenge, persecutions or witch hunts, [but] I am not willing to endorse impunity. (*Latin American Regional Reports* 8 Feb 1990, 2).

It is illustrative of just how dynamic the process of combination among political elements is that human rights accountability has, after the fact, become a force that can threaten the Alywin government more than it ever affected the Pinochet regime. This fact, along with the demonstrated cost/gain consequences observable in Argentina and Uruguay, should make the Chilean government and people less likely to press this issue to the point of national crisis. What might reasonably be expected, given the realities of democratic transition, the amnesty, and Pinochet's presence as Army commander, is a choice that tends toward national consolidation rather than sectoral revenge. The lowest cost means to accomplish these ends might include a general condemnation of the fact of human rights violations that stops short of branding individuals as criminals. Particularly important here will be handling the assertion of Pinochet's

responsibility for creating the environment wherein such offenses were possible, as opposed to assigning him responsibility for specific acts or events.

The predominant issue around which support for the Pinochet regime (43% voted to extend his rule through 1997), and a central responsibility of the Alywin coalition, is the Chilean economy. This force was operative in Allende's downfall as well as being the base upon which sixteen and one-half years of Pinochet's rule was built. Whereas the Pinochet government made economics an ideology with which to rationalize and direct the political agenda, its success in Chile has made it a societal value-it is more than an economic model the Chilean people are committed to-it is their belief that the Pinochet-shaped free market economy is an end unto itself; worthy of support which they demand the Alywin administration continue. It is the separation of the economy from narrow political considerations which is Pinochet's greatest legacy. Political reality drove the party system away from polarization toward consensus, coalition, and compromise. Economic reality has driven the nation toward commitment to an *economic system* and acceptance of a truly national economic model. In this separation lies the key to strengthening both the socio-political and socio-economic relationship systems in Chile through the complimentary effects of liberal democracy and free market capitalism.

Patricio Alywin has inherited an economy, and a political system, in steady growth-forces capable of effecting change throughout the Chilean socio-political environment by making cooperation and mutual advantage both possible and compelling. The contradiction inherent in a military usurpation of political power resulting in creation of a new and successful economic-political paradigm, like the

human rights issue, can help or hurt democratization in Chile depending upon how it is interpreted and channelled. The reality of economics as a paramount force for change and top-priority issue can be seen in a comparison between Pinochet's Chile and Garcia's Peru:

In Peru the progressive populist Mr. Alan Garcia [democratically elected president in 1985] brought his country economic collapse, social misery and civil war. In Chile General Augusto Pinochet achieved economic success at a price in human freedom that may yet provoke an equally brutal reversal. (*The Economist* 22 Jul 1989, 41).

The question Chileans confront centers on whether, as a society, they believe the changes which have manifested themselves throughout both the economic and political systems would have been possible without what amounts to the revolutionary fracturing of Chile's culture by the Pinochet regime. Given the case of Peru and Argentina, it cannot be concluded that merely returning to democratic processes is sufficient to create an environment wherein the dual priorities (and *dual realities*) of political freedom and economic growth are mutually supportive rather than mutually exclusive. Chileans appear to have made the commitment to achieving political democratization along with rather than at the expense of economic growth. Issues of how this enviable position is attained, as opposed to how it becomes distorted, is the contradiction of Latin American politics and the challenge of Chile's options. As the election which brought the Aylwin presidency approached, a Chilean voter captured the essence of the challenge confronting the nation:

Under Pinochet, the economists ruined the legal system. Let's hope that this lawyer [Alywin] does not wreck the economy. (*The Economist* 4 Nov 1989, 53).

An indication of the commitment to the new economic-political model was provided by a labor leader in Chile who commented:

'There may be some strikes and disorder,' says labor leader Diego Olivares. 'But this [Chile] isn't going to look like Argentina or Peru,' neighboring countries afflicted by economic chaos. (*The Wall Street Journal* 7 Jul 1989).

G. NEW CHALLENGES-TRADITIONAL ROLES

When Gen. Augusto Pinochet relinquished Chile's presidency to Patricio Alywin, South America's transition to civilian rule was completed. The Alywin coalition had a clear mandate to govern, winning 55% of the popular vote. It did not however assume the presidency with unbridled freedom to carry out its agenda. Both the nature of the Alywin-led coalition and the distribution of power in the Legislature, will demand adept utilization of coalitions and compromise if the administration is to set and implement national policies. The results of Legislative elections in December 1989 set the stage for the new government's efforts to control the country's political agenda. In elections for the 120 seat Chamber of Deputies, left-wing parties won 28% of the seats, Alywin's Christian Democrats won 32%, and the right-wing won 40%. In the 47 member Senate elections, the left won 15% of the seats, the center 32%, and the right won 53% [including nine Senators appointed by Pinochet prior to leaving office]. (*The Wall Street Journal* 29 Dec 1989). Alywin's CD party can pass legislation in the lower house with either the left or right as coalition partners. In the Senate however,

only cooperation from the right is sufficient to preclude Senate veto of legislation. Therefore, although elected as the candidate of the center-left coalition, President Alywin will have to work not only with the left but the right if he is to effectively govern. Again, the change from politics as a zero-sum game is clearly in evidence. To his advantage, Alywin and the CD are in the strong position of being the fulcrum actor in the moderate center which can keep domestic politics from polarizing. This is so because both the left which was the specific target of Pinochet's repression, and the right, in the identity of the National Renewal, an anti-Pinochet party, have a vested interest in neutralizing the threat of creating any pretext for a Pinochet-military intervention. The potential cost of partisan politics far exceeds any possible benefits which might be accrued. The potential for Alywin to work with rather than in spite of the Legislature is thus very high. Further enhancing the probability for cooperation among parties, and with the government, is Alywin's granting legitimation, prestige and representation to the various blocs which helped the anti-Pinochet coalition win the presidency. Alywin's cabinet includes: 10 Christian Democrats, 6 Socialists, 2 Radicals, 1 Social Democrat, and 1 Center-Right. The Alywin administration and Chile's government stand an excellent chance of achieving both an effective return to democratic traditions and more, to advance Chile's political system and through it national culture, toward achievements based upon popular consensus rather than sectoral absolutes and supported by truly national economic and political models.

H. THE MILITARY: PINOCHET'S TRUMP CARD

The armed forces are the great unknown in the transition to democracy underway in Chile. Traditionally de-politicized, that status changed dramatically

in 1970 when Gen. Pinochet used the military to overthrow the Allende regime. The source of his power as well as his identity, the military was however separated from political activism subsequent to Pinochet's consolidating his control over Chilean society. In so doing the general effectively maintained institutional links with and earned the support of the armed forces, yet was able to re-direct their attention to traditional values of national defense rather than let them become only the tools of regime survival. Officers and personnel recruited into the government were never detached from their overriding identity as members of the armed forces. This provided Pinochet with an assured source of highly reliable support personnel as well as keeping the military as an institution subtly linked to the general as its leader while all the while being directed to fulfill its traditional constitutional duty of national defense.

When, in keeping with the processes he had created and set in motion, Pinochet was denied the opportunity to remain as "president" through 1997, he fell back on his self-appointed role as Army commander; authorized by his 1980 constitution to remain in this position until 1997. In this capacity Pinochet must be considered as holding possible veto power over government operations through his ability to activate and inject the military back into Chilean politics. The free market economic model as well as ostensible commitment to the constitution should argue for Pinochet being amenable to removing himself and the military from the political arena. Conversely, the issue of human rights accountability as it impacts both Pinochet personally and the military institution, is a force working to keep the military in politics. Add to this Pinochet's unequivocal commitment to the free market model he fostered in Chile, making it the best-performing economy

in South America, and a second major force for Pinochet's potential political activism is identified. President Alywin and the Chilean people confront the challenge of at best removing the military as a political institution and, at worst, moving Pinochet toward a position associated with a role as Loyal Opposition leader, working with rather than against the administration.

I. CONCLUSIONS & CONSIDERATIONS

This examination has focused on the phenomena of forces for change affecting Chile's political system. Since 1970 Chilean politics has encompassed experiments of both the left and right. What is most enlightening and interesting is that in the short span of two decades, within the lifetime of many, Chileans have experienced the full spectrum of political and economic relationship systems; all in a compressed and accelerated sequence of always dramatic, often violent, change.

Both Allende and Pinochet represent radical and, in one case violent, re-combinations of the constituent elements making up Chile's political culture. For its part the Pinochet regime did not represent a unitary phenomenon springing full-blown and unexpected from an unknown quarter. Chile's political system is always active; the resurgence of democratic traditions, coalitions and compromise in the wake of testing against both left and right alternatives should strengthen these forces positions in the political hierarchy; freeing both the politicians and the polity to direct their attention toward other areas still needing resolution. The economy is a major element in this paradigm. Commitment to the free market model even after rejection of the regime which first adopted it indicates the potential for its becoming a truly national model; capable of transcending parties, politics and time. If the economy continues to grow strengthening Chile's viability

in the international market place rather than making it only artificially insulated in regional markets; with the distribution of national wealth broadened to include the lower socioeconomic classes, Chile will transition out of the ranks of underdevelopment. With the potential for cohesive democratic political institutions, this can make Chile a modern nation.

If the economic model succeeds, and the human rights issue is resolved, Pinochet should be maneuverable to a position where neither he nor the military are a threat-actual or potential-to political stability.

There is much to be accomplished and the Alywin administration can only make a start in this effort. In the Chile of 1990, the combination of traditional values and new possibilities has created a political environment and a politics-economics paradigm with unlimited potential. If the best of traditional values, democratic processes, and effective institutions maintain their primacy over partisanship and zero-sum perceptions, Chile will transition the last decade of the 20th Century well on the way to becoming the Latin American success story of the 21st.

VI. CONCLUSIONS & FORECASTS

In the final analysis, this study raises more questions than it has provided answers. Yet that is how it should and must be, for any analysis of Latin America serves to confirm the overriding fact that there is no single answer applicable to all of Latin America in every case. As stated in the introduction, Latin America is a system of unique, individual states; each with its own strengths and weaknesses shaping its identity and influencing its activities in the international arena. In the case of Peru's and Chile's economics-politics paradigms, examination leads to comparison. In comparing these two states, societal organization and the relationship of the governed to government becomes the measure of success and the standard of effectiveness by which they are judged.

Within narrowly defined criteria, both Peru and Chile can rightly claim significant national successes. Peru appears to have overcome a tradition of military interference in politics and, if as appears likely, a civilian is elected president in June, will have exercised the democratic electoral process for the third consecutive time since 1980; an achievement unmatched in the nation's post-World War II history. However, democratic political processes have not translated themselves into effective governance in Peru. Completing its tenth year under elected civilian presidents, the country is threatened with the breakdown of civil order, the collapse of its economy, and violence from both the left and right. In this crisis environment economic factors loom large both in the causes as well as possible solutions for this critical situation. The inability of Peru's political leaders to develop and implement a working economic model points not only to

their lack of effectiveness in so vital an area of national concern, but indicts them as well for consistently doing so in pursuit of what is, ultimately, partisan political advantage.

Peru's near-terminal condition cannot help but breed strong reaction from multiple quarters in the domestic political arena. The nature of this reaction and the identity of those who emerge as its spokesmen will determine in large measure whether democratic governance becomes merely a matter of form, or achieves the ability to function as the source of and coordinator for national solutions.

The case in Chile is one of almost polar opposites in both conditions and consequences. With almost one hundred and fifty years of civil governance as its political tradition, the 1973 overthrow of a democratically elected president by the military was truly unprecedented. However, this president having been a declared Marxist who sought to fundamentally alter the socioeconomic system that brought him to power certainly must be seen to have necessitated a radical departure from the "norms" of Chile's civil government tradition. Once in power the military, and particularly General Augusto Pinochet, demonstrated an equally unexpected intensity of commitment to revising the nation's economic model as the regime's, and therefore the nation's, paramount priority. This "economics first" ideology has proven to be the basis for Chile's economic reconstruction and political revitalization. After more than sixteen years of military rule the regime had modified, even liberalized its administration of the country to the point where it permitted itself to be made subject to the electoral process. In so doing, the Pinochet government tested and was answered by a politically matured and economically astute electorate; one capable of demanding a return to democratic

governance but not at the expense of the nation's successful free market economy. Whether or not it was Pinochet's intention, his imposition and the Chilean peoples adoption of a capitalist economy has proven to be an achievement unrivalled in Latin America for its combined effects of economic as well as political freedom.

Such comparisons as have been made throughout this examination lead to further questions concerning the futures unfolding for Peru and Chile. If the Chilean phenomenon is acknowledged as revolutionary in nature and scope, the question becomes: can Peru break out of its downward spiral without creating a revolutionary environment of its own? The answer to such a question is critical, for a revolutionary setting would by its very nature imply the upset, or possible disfigurement of not only the economic model but the technically correct (though increasingly ineffective) democratic political process as well. Given the state of Peruvian societal disintegration and the inability of its political institutions to check the decay, a strong case can be made not only for the eventuality but the necessity of fundamental changes in Peru's political and economic systems as a prerequisite for national survival. The hard reality is that for Peru, democratic forms and processes do not necessarily mean the nation has, or even can, achieve the crucial element of economic viability and vitality upon which popular support for and commitment to democracy is built and nurtured. A government can tell its people they are free but, if they are also hungry and hopeless, the statement is hollow and ultimately, meaningless.

Chile has achieved a far higher level of success integrating and coordinating economic reality into the fabric of democratic governance. Although only in the first months of democratic consolidation, the Chilean political system and more

importantly, the Chilean people, possess the instruments for continuing economic growth and increasing the share of national wealth enjoyed by all Chileans rather than only by privileged sectors. In Chile's case the question is whether the nation could have achieved its present level of freedom, let alone its bright future prospects, in the absence of the revolutionary upheaval of 1973. When compared to the experience in Peru or against almost any other of Latin America's foundering states, it is clear that the revolutionary environment created by Pinochet and the military was prerequisite and precursor for the democratic success of 1990.

Both nations, particularly Peru, and Chile under Pinochet, share a tradition wherein the Executive is/was dominant over not only government but the economy and society. The critical distinction lies in the fact that in Chile Pinochet and the military broke out of the Latin American mold of government, led or controlled by the Executive, consistently seeking to identify and opting for "easy" or "least costly" strategies to address the myriad and complex political and economic issues challenging governments and nations. Again the theme of a revolutionary break not only with prevailing custom but with cultural predisposition can be seen in the Pinochet government's reconstruction and redirection not only of a regime but an entire nation.

It is a challenge to draw lessons from these experiences and convert them into guideposts which both the United States and other Latin states might recognize and utilize. Both Peru and Chile are democracies. That said, it must be noted that one is moving toward new national possibilities and the other fighting to keep from going over the edge of an abyss. In so far as the elements of effective governance translate themselves into a dynamic national identity and shared commitment to

the future, Chile has succeeded integrating and coordinating these previously divergent factors to an extent that places it increasingly in control of rather than in fear of its destiny. For Peru, the future is far less encouraging. Unless a mandate for national leadership breaks the chain of inefficient economics and ineffective government, Peru can at best expect to continue its downward spiral to economic ruin and political chaos. At worst the nation faces the complete breakdown of the rule of law and the collapse of civil society.

The guideposts alluded to earlier must be incorporated by the United States in developing and exercising its hemispheric leadership role. What is clear is that politics, even democratic politics, alone cannot foster either a viable economy or even democracy itself. On the other hand, a successful free market economy, as exists in the United States, the economic "North", and an increasing majority of European and Asian states, fosters belief in and attainment of personal profit (personal advantage) as a fundamental return on an individual's investment of self in such a system. From personal profit, personal freedom is a logical and inseparable development. States and peoples committed to the first must continue to evolve toward the second. This should be the lesson drawn from the experiences of Peru and particularly, Chile. "Economics first" should be the foundation upon which American policy is built and the standard against which its effectiveness in the setting of a particular nation is judged. Comparing Peru and Chile leads to the conclusion that in an economics-politics paradigm based on a free market economy, democracy becomes an evolutionary certainty as well as a political necessity. The same is not the case in a "politics first" paradigm where politics (even democracy)

can stagnate and decay in an environment starved for popular participation and commitment.

This study has focused on Peru and Chile, whose experiences over the past two decades were parallel in time but began from very different points of origin. Peru's experience has been dominated by the political left; Chile's by the right. If freedom (economic as well as political) is the criteria by which the success or failure of these experiences are judged, Chile ranks as the success of this comparison as well as of contemporary Latin America. If it continues to grow into its full economic and political potential, Chile can likewise become not only the success story but the role model for Latin America in the coming century.

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